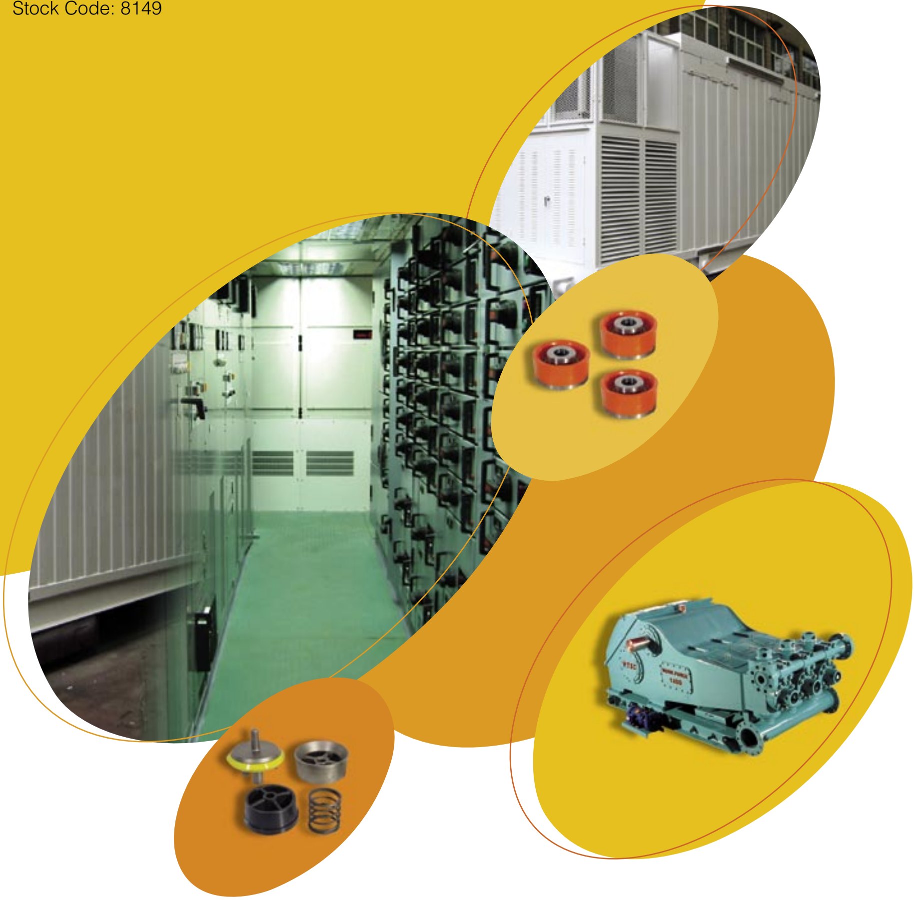
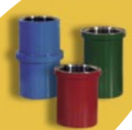
EMER INTERNATIONAL GROUP LIMITED
埃謨國際集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8149





*For identification purposes only

Interim Report 2006

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This report, for which the directors (the "Directors") of EMER International Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

RESULTS HIGHLIGHTS

- The Group's sales for the second quarter ended 30 June 2006 reached approximately RMB75.4 million, representing an approximately 68.2% increase over the same period for 2005;

- Gross profits amounted to approximately RMB33.7 million for the second quarter ended 30 June 2006, representing an approximately 76.6% increase over the same period for 2005;

- Net profit amounted to approximately RMB19.8 million for the second quarter ended 30 June 2006, representing an approximately 129.6% increase over the same period for 2005;

- Net profit amounted to approximately RMB15.7 million for the first six months ended 30 June 2006, representing an approximately 83.8% increase over the same period for 2005; and

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

RESULTS

The board of Directors of the Company (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 June 2006, together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 30 June		**Six months ended 30 June**	
		2006	2005	**2006**	2005
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
TURNOVER	*4*	**75,376**	44,804	**95,943**	54,155
COST OF SALES		**(41,721)**	(25,799)	**(53,542)**	(31,182)
GROSS PROFIT		**33,655**	19,005	**42,401**	22,973
OTHER REVENUE	*4*	**670**	1,297	**1,154**	1,933
SELLING AND DISTRIBUTION EXPENSES		**(4,706)**	(1,237)	**(7,516)**	(1,846)
GENERAL AND ADMINISTRATIVE EXPENSES		**(9,667)**	(5,930)	**(20,539)**	(9,837)
OTHER OPERATING EXPENSES	*5*	**(142)**	(1,895)	**(215)**	(1,902)
PROFIT FROM OPERATIONS		**19,810**	11,240	**15,285**	11,321
FINANCE COSTS	*6*	**(212)**	(321)	**(402)**	(404)
PROFIT BEFORE TAX		**19,598**	10,919	**14,883**	10,917
TAXATION	*7*	**180**	(2,304)	**830**	(2,367)
PROFIT FOR THE PERIOD		**19,778**	8,615	**15,713**	8,550
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**19,778**	8,615	**15,713**	8,550
DIVIDENDS	*8*	**–**	–	**–**	–
EARNINGS PER SHARE					
– basic	*9(a)*	**RMB0.082**	RMB0.048	**RMB0.065**	RMB0.047
– diluted	*9(b)*	**RMB0.080**	RMB0.046	**RMB0.063**	RMB0.046

CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**22,183**	13,367
Intangible assets		**508**	558
Interests in leasehold land held for own use under operating leases		**9,036**	9,080
Deferred tax assets		**3,704**	2,790
		35,431	25,795
CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases		**199**	199
Inventories		**37,620**	23,760
Due from directors		**120**	102
Due from an officer		**513**	1,333
Due from related companies		**–**	514
Prepayments, deposits and other receivables		**4,308**	4,463
Trade receivables	11	**58,793**	45,477
Advance to suppliers		**539**	3,495
Bills receivable		**5,700**	2,300
Value added tax recoverable		**991**	1,564
Cash and bank balances		**18,777**	31,254
		127,560	114,461
CURRENT LIABILITIES			
Bank overdrafts		**939**	61
Trade payables	12	**17,685**	14,627
Other payables and accruals		**4,866**	6,595
Deposits received		**2,456**	1,536
Due to directors		**171**	538
Bills payable, secured		**1,500**	2,300
Tax payables		**3,655**	4,354
Short-term borrowings		**12,919**	7,779
Obligations under finance leases		**13**	42
		44,204	37,832

CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2006 (Unaudited) *RMB'000***	As at 31 December 2005 (Audited) *RMB'000*
NET CURRENT ASSETS		**83,356**	76,629
TOTAL ASSETS LESS CURRENT LIABILITIES		**118,787**	102,424
NON-CURRENT LIABILITIES			
Obligations under finance leases		**114**	114
Deferred tax liabilities		**25**	25
		139	139
NET ASSETS		**118,648**	102,285
CAPITAL AND RESERVES			
Share capital		**24,960**	24,960
Reserves		**93,688**	77,325
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**118,648**	102,285

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006

			Reserves								
	Share capital	**Share premium**	**Merger reserve**	**Exchange fluctation reserve**	**Employee share-based payment reserve**	**Capital reserve**	**Statutory surplus reserve**	**Statutory public welfare fund**	**Retained profits**	**Subtotal**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	166	–	17,724	–	–	–	1,953	976	27,623	48,276	48,442
Employee share-based payment expenses	–	–	–	–	704	–	–	–	–	704	704
Profit for the period	–	–	–	–	–	–	–	–	8,550	8,550	8,550
At 30 June 2005 (unaudited)	166	–	17,724	–	704	–	1,953	976	36,173	57,530	57,696
At 1 January 2006	24,960	8,678	17,724	(158)	1,502	4,138	4,018	1,678	39,745	77,325	102,285
Employee share-based payment expenses	–	–	–	–	650	–	–	–	–	650	650
Profit for the period	–	–	–	–	–	–	–	–	15,713	15,713	15,713
Transfer from retained profit								714	(714)	–	–
At 30 June 2006 (unaudited)	24,960	8,678	17,724	(158)	2,152	4,138	4,018	2,392	54,744	93,688	118,648

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FLOW FROM OPERATING ACTIVITIES	**(8,642)**	(328)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(9,424)**	(2,421)
NET CASH FLOW FROM FINANCING ACTIVITIES	**4,711**	3,221
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(13,355)**	472
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**31,193**	4,936
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**17,838**	5,408
ANALYSIS OF THE BALANCES CASH AND CASH EQUIVALENTS		
Unrestricted cash and bank balances	**18,777**	5,408
Bank overdrafts	**(939)**	–
	17,838	5,408

Notes:

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 unaudited results of the Group have been prepared on the basis as if the Company had always been the holding company of the Group.

The unaudited consolidated results for the six months ended 30 June 2006 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

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

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. The accounting policies adopted are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2005.

3. SEGMENT INFORMATION

(a) Business segments

For the six months ended 30 June

	Electrical equipment		Expendable parts and accessories		Consultancy services		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	**49,809**	26,684	**44,614**	27,306	**1,520**	165	**95,943**	54,155
Other revenue	**883**	1,801	**–**	124	**–**	–	**883**	1,925
	50,692	28,485	**44,614**	27,430	**1,520**	165	**96,826**	56,080
Segment results	**16,088**	7,500	**(163)**	8,250	**1,511**	(3,074)	**17,436**	12,676
Unallocated costs							**(2,422)**	(1,363)
Interest income							**271**	8
Interest expenses							**(402)**	(404)
Profit before tax							**14,883**	10,917
Taxation							**830**	(2,367)
Profit for the period							**15,713**	8,550

(b) Geographical segments

For the six months ended 30 June

	Turnover		Segment results	
	2006	2005	**2006**	2005
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Hong Kong	**–**	–	**–**	–
Mainland China	**58,128**	27,948	**18,649**	9,563
USA	**31,612**	22,091	**(2,107)**	1,111
Others (Asia, Europe, etc.)	**6,203**	4,116	**894**	2,002
	95,943	54,155	**17,436**	12,676
Interest income			**271**	8
Unallocated costs			**(2,422)**	(1,363)
Profit from operations			**15,285**	11,321

4. TURNOVER AND OTHER REVENUE

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

	Unaudited For the six months ended 30 June 2006 RMB'000	30 June 2005 RMB'000
Turnover		
Sales of electrical equipment	**49,809**	26,684
Sales of expendable parts and accessories	**44,614**	27,306
Consultancy service fee income	**1,520**	165
	95,943	54,155
Other revenue		
Interest income	**271**	8
Other income	**883**	1,925
	1,154	1,933
Total revenue	**97,097**	56,088

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

5. OTHER OPERATING EXPENSES

	Unaudited For the six months ended 30 June 2006 RMB'000	30 June 2005 RMB'000
Exchange difference	**211**	(15)
Loss on disposals of property, plant and equipment	**4**	–
Impairment losses of bad and doubtful debts	**–**	1,917
	215	1,902

6. FINANCE COSTS

	Unaudited For the six months ended	
	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Interest on bank loans	**401**	400
Finance charges on obligations under finance leases	**1**	4
	402	404

7. TAXATION

Taxation in the consolidated income statement represents:

	Unaudited For the six months ended	
	30 June 2006	30 June 2005
	RMB'000	*RMB'000*
Current tax		
USA income tax	**(484)**	774
Mainland China enterprise income tax	**567**	632
	83	1,406
Deferred tax		
Origination and reversal of temporary differences	**(913)**	961
Tax (credit)/expenses	**(830)**	2,367

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 of operations (i.e. for the years ended 31 December 2003 and 2004) 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税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.

No provision of Hong Kong Profits Tax has been made as the Directors consider that the Group had no assessable profit in Hong Kong during the six months period ended 30 June 2006 (2005: Nil).

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the three months and six months ended 30 June 2006 are based on the profit attributable to equity shareholders of the Company of approximately RMB19,778,000 and RMB15,713,000 (three months and six months ended 30 June 2005: RMB8,615,000 and RMB8,550,000) and the weighted average number of 240,000,000 (2005: 180,000,000) ordinary shares in issue during the periods. The weighted average number of shares used to calculate the last period's earnings per share included the proforma ordinary shares issued calculated based on the assumption that the Reorganization had been completed on 1 January 2005.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended 30 June 2006 are based on the profit attributable to equity shareholders of the Company of approximately RMB19,778,000 and RMB15,713,000 respectively (2005: RMB8,615,000 and RMB8,550,000 respectively) and the weighted average number of 246,509,880 and 247,709,897 (2005: 189,251,014 and 187,709,178) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, additions to fixed assets amounted to approximately RMB9,700,000 and net book value of fixed assets disposed amounted to approximately RMB9,000.

11. TRADE RECEIVABLES

The aging analysis of trade receivables net of impairment losses of bad and doubtful debts, is as follows:

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
0 to 30 days	**30,176**	17,249
31 to 60 days	**13,965**	19,967
61 to 90 days	**2,154**	1,226
91 to 120 days	**1,067**	72
121 to 365 days	**11,188**	6,057
1 to 2 years	**243**	906
Over 2 years	**–**	–
	58,793	45,477
Represented by:		
Gross amount	**61,970**	48,654
Less: impairment losses of bad and doubtful debts	**(3,177)**	(3,177)
	58,793	45,477

As at 30 June 2006, out of total receivables, the Group had a normal trade receivable of approximately RMB10,684,000 which was the biggest receivable that the Group carried as at 30 June 2006 from one single customer.

12. TRADE PAYABLES

The aging analysis of trade payable is as follows:

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
0 to 30 days	**10,775**	7,441
31 to 60 days	**5,224**	3,678
61 to 90 days	**307**	1,752
91 to 120 days	**41**	534
121 to 365 days	**1,191**	1,142
1 to 2 years	**85**	18
Over 2 years	**62**	62
	17,685	14,627

13. CAPITAL COMMITMENTS

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

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
contracted for	**184**	7,174

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the three months ended 30 June 2006, the Group achieved a remarkable result of approximately RMB75.4 million in total sales and a net profit of approximately RMB19.8 million. As a result, the Group realized a total revenue of approximately RMB95.9 million for the six months ended 30 June 2006 and a net profit of approximately RMB15.7 million.

FINANCIAL REVIEW

Turnover and Other Revenue

For the three months ended 30 June 2006, the Group recorded a total sales of approximately RMB75.4 million, representing an increase of approximately 68.2% over the sales in the same period for 2005, and an increase of 266.5% over the sales for the three months ended 31 March 2006. Other revenue was approximately RMB670,000 for the three months ended 30 June 2006 and approximately RMB1,154,000 for the six month ended 30 June 2006.

COST OF SALES AND GROSS PROFIT MARGIN

The Group's cost of sales for the three and six months ended 30 June 2006 and the same periods in 2005 amounted to approximately RMB41.7 million and RMB53.5 million, RMB25.8 million and RMB31.2 million respectively, resulting in a consolidated gross profit margin of approximately 44.7% and 44.2%, 42.4% and 42.4% respectively.

OPERATING COSTS AND NET EARNINGS

For the three and six months ended 30 June 2006, the Group's selling and distribution expenses amounted to approximately RMB4.7 million and RMB7.5 million respectively, accounting for approximately 6.2% and 7.8% respectively of the Group's turnover, as compared to approximately 2.8% and 3.4% for the same periods in 2005. The increase of selling and distribution expenses was mainly due to the increased number of sales-related staff as well as promotional activities.

For the three and six months ended 30 June 2006, the Group's general and administrative expenses amounted to approximately RMB9.7 million and RMB20.5 million respectively, representing approximately 12.8% and 21.4% of the Group's total sales, as compared to those of approximately 13.2% and 18.2% for the same periods in 2005. In comparison with the three months ended 31 March 2006, the general and administrative expenses for the second quarter ended 30 June 2006 were 11.1% lower due to a tighter cost control measures taken.

For the three and six months ended 30 June 2006, the Group's other operating expense amounted to approximately RMB142,000 and RMB215,000 respectively while approximately RMB1.9 million and RMB1.9 million occurred for the same periods in 2005 respectively. For the three months ended 30 June 2006, the Group's finance costs amounted to approximately RMB212,000, as compared to approximately RMB321,000 for the same period in 2005.

For the three months and six months ended 30 June 2006, the Group realized a net profit of approximately RMB19.8 million and RMB15.7 million respectively, representing an increase of 129.6% and 83.8% over the same periods in 2005 respectively.

BUSINESS REVIEW

For the three and six months ended 30 June 2006, the Group's expendable business grew approximately 41.1% and 63.4% over the same periods in 2005 respectively. In response to the demands of customers, the Group expanded the scope of its oil field product supply into drilling pipes, solid control parts and other equipment. The Group successfully launched its TSC-branded 1220 horse power mud pump, and secured US$1.08 million orders from international customers. The growth of drilling rig control system was even more remarkable, the Group realized a sales of approximately RMB49.8 million in electrical drilling equipment, representing an increase of approximately 86.7% over the same period in 2005 due to new demand and upgrading demand from oil drilling industry. The consultancy business realized a sales of approximately RMB1.5 million for the six months ended 30 June 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CHARGE OF ASSETS

As at 30 June 2006, the Group maintained a current assets of approximately RMB127.6 million in which approximately RMB18.8 million was cash and bank balances while current liabilities were approximately RMB44.2 million. As at 30 June 2006, the Group carried a short-term bank borrowings of approximately RMB12.9 million which were secured by the Group's inventory assets in its USA warehouse, leasehold land use right and buildings located in Qingdao as well as machineries located in Qingdao.

GEARING RATIO

As at 30 June 2006, the Group maintained a gearing ratio, based on total liabilities over total assets, of approximately 27.2% (31 December 2005: approximately 27.1%).

CONTINGENT LIABILITY

As at 30 June 2006, the contingent liability of discounted bills amounted to RMB1,500,000 (31 December 2005: RMB2,300,000). Save as disclosed above, the Directors are not aware of any other contingent liability.

SIGNIFICANT INVESTMENTS AND DISPOSAL

There were no material investments, acquisitions and disposals of subsidiaries by the Group during the six months period ended 30 June 2006.

CAPITAL STRUCTURE

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

CAPITAL COMMITMENT

Save as disclosed in note 13 of this report, there is no other capital commitment.

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 considered that the impact of the foreign exchange exposure of the Group has some adverse effect on the income of the Group. As at 30 June 2006, 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.

PROSPECTS AND STRATEGIES

Currently, the Group has an approximately RMB132 million contract value in its order book to be completed in future. 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 continuing growth in future. The Group will continue to focus on its core business of serving oil and gas drilling industry worldwide. In addition, 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.

BUSINESS PROGRESS

The following compares the actual business progress of the Group against the business plan from 1 January 2006 to 30 June 2006 as set out in the prospectus of the Company dated 21 November 2005 (the "Prospectus").

Expected business progress	Actual business progress
Development and introduction of new products	
1. Recruit 1 to 2 engineers for mud pump design	Two engineers were hired in USA
2. Start to manufacture and introduce new valves and valve seats for mud pumps	Commenced manufacturing of new valves and valves seats
3. Recruit more engineers for Company's new product development	Six engineers were hired in China and USA
4. Seek co-operation partners for the development of air-drilling or nitrogen drilling packages	Potential partner identified Completed TSC-branded Work Force 660 mud pump full design Completed Work Force 360 and 1880 master design New control methods were applied to rig control systems for exportation Progress made in developing offshore rig and FSO control systems
Expansion of production facilities	
1. Start construction of new plant for HHCT	Plant construction design was completed and submitted to local authorities for approval. Construction was postponed to October of 2006 Additional machineries were added to expand mud pump and module production capacity A new power transmitter was installed to allow two-shift work schedule per 24 hours in Qingdao plant

Expected business progress	Actual business progress
Expansion of sales and marketing networks	
1. Set up the Group's sales office in Kazakhstan	Conducted a site investigation and concluded that Kazakhstan sales office be postponed when it is economically viable Sales representatives were sent to Ecuador
2. Recruit 3 more sales persons in Houston office to support the distributors and sales	Six sales and supporting persons were recruited in Houston office
3. Carry out sales campaign to promote valves and valve seats	Sales campaign carried out in North America and South America, and sales orders were generated
4. Commence sales programme to promote the Group's mud pumps in North America and the PRC	Sales programme carried out in North America generating US$1.08 million orders as of 30 June 2006
5. Participate in major oil shows in the world such as the OTC show in Houston and Moscow Oil Show	Participated in OCT show successfully Cancelled the show trip to Moscow Participated Oil Show in Canada
6. Conduct technical seminars to promote the Group's products	A series of seminars were conducted in USA to distributors and end users
7. Running advertisement in major industrial magazines and journals	Advertisements were made in journals such as Tradequip and Upstream

USE OF PROCEEDS

During the period from 1 January 2006 to 30 June 2006, a total of approximately RMB11.5 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 RMB33.47 million (after deducing relevant listing expenses) were used as follows after the usage of approximately RMB15.95 million in 2005:

		Amount of net proceeds to be used up to 30 June 2006 from 1 January 2006 as set out in the Prospectus *RMB million*	**Actual amount of net proceeds used from 1 January 2006 up to 30 June 2006** *RMB million*
1.	Development and introduction of new products *(Note 1)*	6.65	2.56
2.	Expansion of production capacities *(Note 2)*	4.58	5.32
3.	Investments in related companies	–	–
4.	Expansion of sales and marketing network *(Note 3)*	2.70	1.57
5.	Repayment of amounts due to a director	–	–
6.	General working capital	–	–

Notes:

1. Approximately RMB2.56 million was utilised for development of mud pump, new valves/ valve seats and other products. The balance was re-located to expansion of mud pump production capacities of 2006. Given that the Group would like to speed up the progress in order to meet the market demand, these plans were carried out earlier than what is set not in the Prospectus.

2. Approximately RMB4.57 million was utilised from internal resources for acquisition of land in Xi'an in 2005. 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. Hence, the original RMB4.57 million earn marked for land purchase was used as working capital of HHCT in 2005. In order to increase production capacity of Qingdao plant, approximately additional RMB5.32 million was used for adding new machineries and power transmitter in Qingdao plant.

3. Sales office in Kazakhstan was not set up, but funds were used for recruiting sales and supporting staff for Houston office as well as for producing promotional mud pump.

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

As at 30 June 2006, 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 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: Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of the Company's issued share capital
Mr. Zhang Menggui	74,143,000	–	–	–	74,143,000	30.89%
Mr. Jiang Bing Hua	74,143,000	–	–	–	74,143,000	30.89%
Mr. 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.

Interest in underlying shares of the Company:

Details of the outstanding options which have been granted and remaining unexercised under the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") as at 30 June 2006 are as follows:

Name or category of participant	Date of grant *(Notes 1 & 2)*	Exercisable period *(Notes 1, 2 & 3)*	Exercise price per share *HK$*	Number of share options: Balance at 28.11.2005	Exercised during the period	Lapsed during the period	Balance at 30.6.2006
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 Yunqiang	19.10.2005	29.11.2005 to 28.11.2015	0.286	2,340,000	–	–	2,340,000
Mr. 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 vested 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, as at 30 June 2006, 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.

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

As at 30 June 2006, 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**
Ms. Chen Fengying *(Note 1)*	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.39%
Ms. Zhang Jiuli *(Note 2)*	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.39%
Ms. 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	14,500,000 shares	6.00%

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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Ms. 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Ms. 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Ms. 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 EXECUTIVES' 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 30 June 2006, 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.

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 six months period ended 30 June 2006.

INTERESTS OF COMPLIANCE ADVISOR

Pursuant to a compliance advisor agreement dated 21 November 2005 (the "Compliance Advisor Agreement") 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 after 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 30 June 2006.

The Company announced on 24 July 2006 that MasterLink had withdrawn its status as a GEM sponsor with effect from 21 July 2006. Accordingly, MasterLink had resigned and ceased to act as the compliance advisor to the Company with effect from 21 July 2006 under the Compliance Advisor Agreement.

The Company is in the course of identifying a replacement compliance advisor and will appoint a replacement compliance advisor within three months from the effective date of termination of MasterLink's appointment pursuant to Rule 6A.27 of the GEM Listing Rules.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2006, except for the following deviation.

A2.1 The chairman and chief executive officer of the Company is the same individual.

Mr. Zhang Menggui ("Mr. Zhang") is both the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. Mr. Zhang has been both chairman and chief executive officer of the Company since its incorporation and has high standing within the Group together with his extensive experience in the gas and oil industry. The management considered that there is no imminent need to change the arrangement. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of chairman and chief executive officer is necessary.

In order to reinforce a strong independent element on the Board together with the existing three independent non-executive Directors, which could effectively exercise independent judgment on the actions of the Company. Therefore, the Company has appointed Mr. Jiang Longsheng, a veteran in offshore oil industry in China and former executive Director and vice president of CNOOC Limited (a company listed on the Main Board of the Stock Exchange), as non-executive Director effective on 1 May 2006. The non-executive Director with diversified expertise play an important role on strategy development and ensuring that the Board maintains high standards of reporting as well as taking the lead where potential conflict of interests arise.

AUDIT COMMITTEE

The Company established an audit committee on 20 October 2005 with terms of reference in compliance with Rules 5.28 to 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 controls of the Group.

The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the chairman of the audit committee), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors. The audit committee of the Company has reviewed the unaudited results of the Group for the six months ended 30 June 2006 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.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted during or at the end of the six months ended 30 June 2006 or at any time during such period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct 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 six months ended 30 June 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board
EMER International Group Limited
Zhang Menggui
Chairman

Hong Kong, 9 August 2006

As at the date of this report, the Board comprises of Mr. Zhang Menggui (executive Director), Mr. Jiang Bing Hua (executive Director), Mr. Zhang Hongru (executive Director), Mr. Chen Yunqiang (executive Director), Mr. Jiang Longsheng (non-executive Director), Mr. Chan Ngai Sang, Kenny (independent non-executive Director), Mr. Bian Junjiang (independent non-executive Director) and Mr. Guan Zhichuan (independent non-executive Director).