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 2006

* 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. Now the Group is ready to supply Jacking System with its own jacking system control and other offshore drilling equipment.

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

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

Non-executive Director
Mr. Jiang Longsheng

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

COMPANY SECRETARY
Ms. Cheung Wai Sze, Candy

QUALIFIED ACCOUNTANT
Mr. Wong Kin Ming, Terry

COMPLIANCE OFFICER
Mr. Zhang Hongru

AUTHORISED REPRESENTATIVES
Mr. Zhang Menggui
Mr. Jiang Bing Hua

AUDIT COMMITTEE
Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan

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

COMPLIANCE COMMITTEE
Mr. Bian Junjiang
Mr. Zhang Hongru
Mr. Chan Ngai Sang, Kenny
Mr. Guan Zhichuan
Ms. Cheung Wai Sze, Candy

WEBSITE ADDRESS
www.emergroup.com
(The contents of the website of the Company do not form a part of this Annual Report)

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Cayman Islands

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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
Hang Seng Bank Limited, Guangzhou Branch
Metrobank N.A.

STOCK CODE
8149

Corporate Milestones

February, 2005
The Company was incorporated.

August, 2005
The Group's new plant in Qingdao 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.

March, 2006
The Group completed the assembling of its first TSC-branded mud pump.

May, 2006
The Group launched its TSC-branded mud pump in OTC show in Texas, USA, and obtained orders from international clients including an international offshore drilling contractor.

July, 2006
The Group delivered its rig control systems to a major oil company in Saudi Arabia.

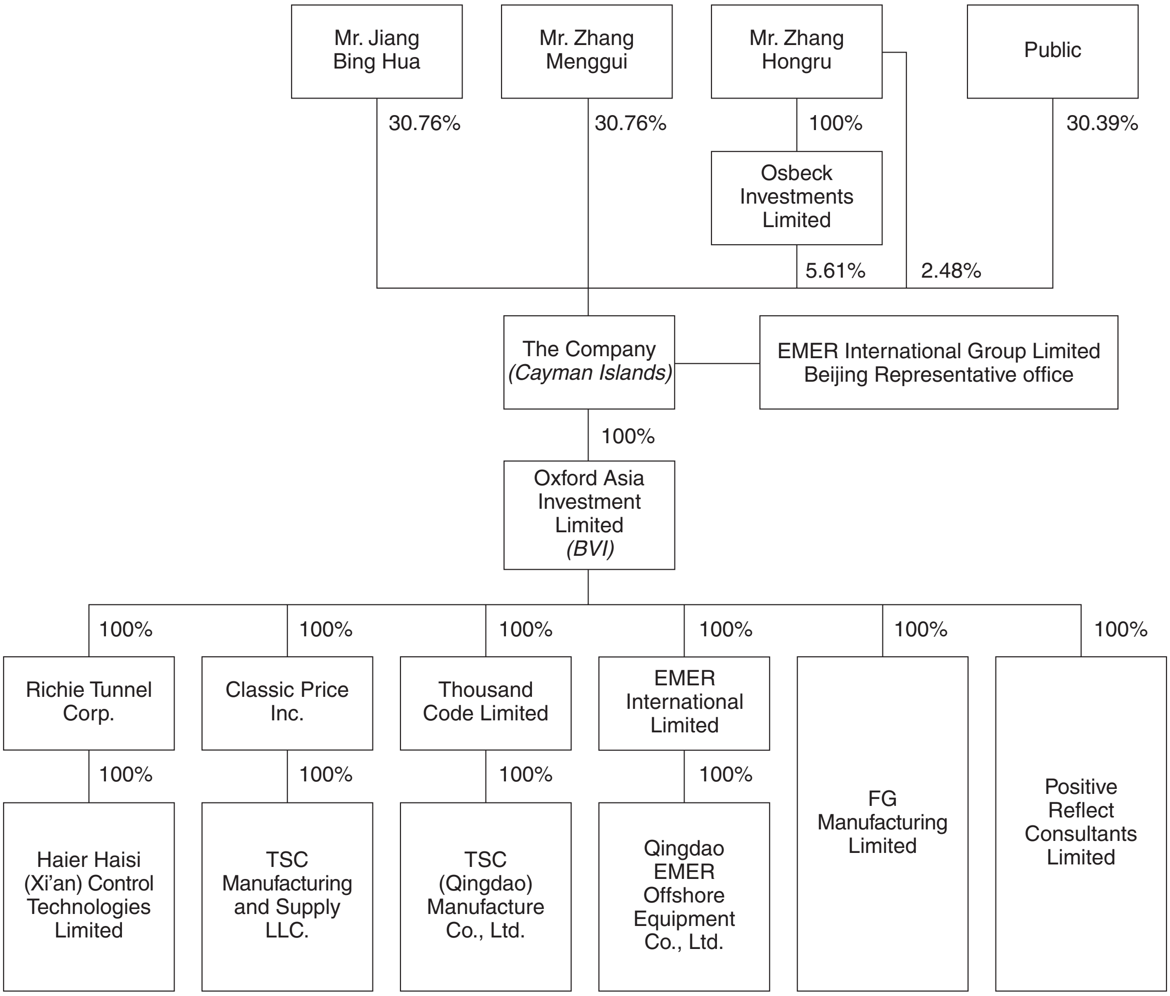
August, 2006
The Group's Qingdao factory renewed its ISO9001:2000 certificate.

October, 2006
The Group started new plant construction in Xi'an, China.

November, 2006
The Group has invested in an associate in China to produce jacking systems for jack-up offshore drilling platforms.

The Group's Xi'an Factory renewed its ISO9001:2000 certificates.

The Company was incorporated in the Cayman Islands with limited liability on 22 February 2005. As of 31 December 2006, the structure of the Group is as follows:



"We can do better. We must do better. We must do better F.A.S.T."

Zhang Menggui
Chairman and Chief Executive Officer

"One team, one dream, together for excellence."

Jiang Bing Hua
Co-chairman
President and Chief Operating Officer

Dear Shareholders:

We are pleased to present our second annual report of the Company since our listing on GEM in November 2005 for the financial year ended 31 December 2006 (the "Year").

REVIEW OF OPERATIONS

For the Year, the Group made progresses in every major aspect of operations. For development and introduction of new products, the Group added new machinery, recruited engineers, and launched three types of TSC-branded mud pump, namely 360, 660 and 1200 series of horse power mud pump. The Group successfully expanded its pump module capacity and became the sole supplier of A-1700 pump module in China to international markets. The Group also completed initial design of jacking control systems for jacking system used on jack-up offshore drilling platforms.

On the market side, the Group successfully sold its rig control systems to the Middle East markets and established a business relationship with a major oil company in Saudi Arabia. The clients base for the Group's expendable products became more diversified.

In order to penetrate further into offshore drilling equipment market, the Group invested in a joint-venture with a famous Zhengzhou Machinery Institute to produce jacking systems for jack-up offshore drilling platform.

The Group also established a wholly owned company designated for supplying offshore drilling equipment package to offshore rig owners and rig builders in future.

To further reinforce the Group's sales and marketing capability in the international markets, more sales people were recruited. More staff for production bases were also added.

We feel that the Group is now well positioned for further rapid growth in both sales and profit in future.

FINANCIAL RESULTS

The Group's sales reached historical high of approximately RMB216 million, realizing an approximately 95.1% increase over last year. While sales from consultancy and marketing services remained stable in comparison with last year, sales of rig control systems and expendables increased by 145.5% and 67% respectively.

The Group's gross profit reached approximately RMB97.1 million and represented a consolidated gross margin of 44.8%. The improvement in the gross margin was mainly due to the high gross margin generated from the Group's rig electric control systems in the Year.

After charging all expenses in the Year, the Group produced for our shareholders a net profit of approximately RMB34.1 million, representing a 76.4% increase over the net profit of last year, even though the tax expenses in the Year increased by 233% to RMB3.4 million. In the Year, the Group's consolidated net margin was 15.8%.

DIVIDEND AND PROPOSED BONUS ISSUE OF SHARES

The Directors do not recommend the payment of a cash dividend for 2006 but propose for shareholders' approval a bonus issue of shares to those shareholders whose names appear on the register of member of the Company on 7 May 2007 on the basis of one bonus share (the "Bonus Share") for every five existing shares held (2005: Nil). The Bonus Shares will rank pari passu in all respects with the existing issued shares.

FUTURE PROSPECTS

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.

To meet rapid demand from our customers, the Group shall be looking for any opportunities of co-operation and acquisitions. With more and more products being developed, launched and introduced into markets by the Group, the Group shall consider to re-organize business operations under two sections of drilling equipment and oil field supplies.

For the coming year, we are 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 every 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 and our strategic partners.

APPRECIATION

During the Year, the Group achieved a remarkable growth in sales and profit over the previous year. 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 thank our excellent team of all employees of our Group who worked so hard in the Year which made the Group's excellent growth in the Year possible.

Zhang Menggui	**Jiang Bing Hua**
Chairman	*Co-Chairman, President*
Chief Executive Officer	*Chief Operating Officer*

Hong Kong
26 March 2007

A. OVERVIEW

The Group is a product and service provider dedicated to the 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 remarkable results and generated approximately RMB221.3 million in total revenue and approximately RMB34.1 million in net profit. With the efforts of the board of directors and the employees of the Group, the number of customers and clients increased to about 105.

B. FINANCIAL REVIEW

Financial Highlights

	Year ended 31 December 2006 RMB'000	Year ended 31 December 2005 RMB'000	Percentage of year-to-year increase %
Total revenue	**221,301**	114,321	93.6
Gross profit	**97,055**	46,921	106.8
Net profit	**34,138**	19,357	76.4
Basic earnings per share (RMB)	**0.142**	0.105	35.2

Turnover and Other Revenue

During the Year, the Group recorded a total revenue of approximately RMB221,301,000, representing an increase of approximately 93.6% from RMB114,321,000 for 2005. Turnover from the Group's three main business areas reached approximately RMB216,449,000, representing a 95.1% increase compared with 2005. Other revenue increased to approximately RMB4,852,000 which represented an increase of 42.5% from 2005. The increase in the Group's turnover in 2006 was mainly attributable to the increase in sales of rig electrical control system and expendable parts due to expansion of customers and clients base that the Group secured in 2006.

B. FINANCIAL REVIEW *(cont'd)*

Segment Information By Business

Turnover by business segments

	Year ended 31 December 2006 RMB'000	**Percentage %**	Year ended 31 December 2005 RMB'000	Percentage %	Percentage of year-to-year increase/ (decrease) %
Electrical equipment	**106,689**	**49.3**	43,464	39.2	145.5
Expendable parts and accessories	**105,556**	**48.8**	63,207	57.0	67.0
Consultancy services	**4,204**	**1.9**	4,245	3.8	(0.9)
Total	**216,449**	**100.0**	110,916	100.0	95.1

Electrical equipment

The Group's business in provision of rig electrical control systems involves installation and provision of electric control systems and controlling year equipment to PRC oil and gas drilling companies and drilling machinery manufacturers. For the Year, sales derived from this business segment was approximately RMB106,689,000, representing an increase of approximately 145.5% over 2005. The increase was mainly attributable to the demand from new and existing customers.

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 RMB105,556,000 in 2006, representing a rise of approximately 67.0%. 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 remains stable. Revenue from this business segment was mainly derived from international clients including a major international offshore drilling platform design house with whom the Group entered into a long-term cooperation agreement. Such a long-term cooperation agreement shall greatly facilitate the Group's efforts in expanding further into the booming offshore drilling equipment market in China in the future.

B. FINANCIAL REVIEW *(cont'd)*

Segment Information By Geography

Turnover by geographic locations

	Year ended 31 December 2006 RMB'000	**Percentage %**	Year ended 31 December 2005 RMB'000	Percentage %	Percentage of year-to-year increase %
Mainland China	**111,315**	**51.4**	46,618	42.0	138.8
USA	**76,932**	**35.5**	50,162	45.2	53.4
Others (Asia, Europe, Russia etc.)	**28,202**	**13.1**	14,136	12.8	99.5
Total	**216,449**	**100.0**	110,916	100.0	95.1

For the Year, the significant portion of the Group's sales was derived from the PRC market, contributing to approximately 51.4% of total turnover while about 35.5% of sales was realized in USA. Sales to other regions were increased to reach to approximately RMB28,202,000. Such 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, sales from the PRC market realized an increase of approximately 138.8% over 2005 to reach to about RMB111,315,000. Sales in mainland 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 2006 and 2005 amounted to approximately RMB119,394,000 and RMB63,995,000 respectively, resulting in a consolidated gross profit margin of approximately 44.8% and 42.3% respectively. The increase in gross profit margin was mainly attributable to the product mix biased to higher margin SCR-type of rig control systems and reduced unit costs due to economy of scale as a result of increased production volume in the Group's manufacture base in Xi'an.

Operating Costs and Net Profit

During the Year, the Group's general and administrative expenses amounted to approximately RMB51,254,000, representing approximately 23.7% of the Group's total sales, as compared to that of approximately 20% for 2005. The increase in general and administrative expenses was mainly due to the increases in staff-related expenses, research and development expenses, office-related expenses and the increase in expenses related with travelling, entertainment, and professional fee, etc.

B. FINANCIAL REVIEW *(cont'd)*

Operating Costs and Net Profit *(cont'd)*

During the Year, the Group's selling and distribution expenses amounted to approximately RMB9,253,000, accounting for approximately 4.3% of the Group's turnover, as compared to approximately 4.0% for 2005. The increase of selling and distribution expenses was mainly due to the increase number of sales-related, transportation and traveling as well as freight and handling.

During the Year, the Group's finance costs amounted to approximately RMB1,224,000, as compared to approximately RMB877,000 for 2005. The increase in finance costs was mainly attributable to the Group's finance charges on obligations under finance leases.

During the Year, the Group's other operating expenses which mainly is comprised of impairment losses and exchange losses amounted to approximately RMB2,654,000 as compared the RMB2,449,000 for 2005.

During the Year, the Group achieved net profit of approximately RMB34,138,000, an increase of approximately 76.4% from approximately RMB19,357,000 in 2005. Net profit margin for the Group was approximately 15.8% which is lower than a net profit margin of 17.5% for 2005. The drop in net margin was mainly due to a rapid increase in selling, general and administration expenses.

Group's Liquidity and Capital Resources

As at 31 December 2006, the Group had intangible assets of approximately RMB458,000.

As at 31 December 2006, the Group carried fixed assets of approximately RMB35,373,000 being property, plant and equipment, properties under development and lease-hold land use rights.

As at 31 December 2006, the Group had current assets of approximately RMB173,047,000. Current assets mainly comprised cash and bank balances of approximately RMB23,366,000, inventories of approximately RMB57,752,000, trade receivables, bills receivables and other receivables of approximately RMB88,543,000, amount due from an associate RMB1,000,000, amounts due from related parties of approximately RMB631,000, value added tax recoverable of approximately RMB1,346,000, interests in leasehold land held for own use of approximately RMB201,000, advances to suppliers of approximately RMB16,000, and traveling advance to a director and an officer of approximately RMB100,000 and RMB92,000.

Current liabilities amounted to approximately RMB76,758,000, mainly comprising trade payables, bills payables and other payables of approximately RMB47,475,000, bank loan of approximately RMB18,849,000, tax payables of approximately RMB4,151,000, amount due to a related company of approximately RMB11,000, deposits received of approximately RMB6,272,000.

During the Year, the Group's account receivables (gross) turnover was 112 days as compared to 160 days in 2005 while the Group's account payable turnover was 73 days as compared to 83 days in 2005. Inventory turnover was 177 days, as compared to 135 days in 2005.

B. FINANCIAL REVIEW *(cont'd)*

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

Gearing ratio, total liabilities to equity shareholders' funds was 56.4%, as compared to 37.1% in 2005.

Significant Investments and Disposals

During the Year, the Group made an investment of approximately RMB2,500,000 into an investment in mainland China, holding 25% equity interests in an associate.

Save as the above, there were no other significant investments and disposals.

Capital Structure

As at 31 December 2005, there were 240,000,000 shares in issue and the Company carried a capital of approximately RMB24,960,000.

During the Year, the Company issued 1,044,000 shares to Pre-IPO option holders who exercised their options. As at 31 December 2006, the Company carried 241,044,000 shares in issue, and a capital of approximately RMB25,066,000.

Charges on Assets

To secure the loans from banks, the Group agreed to charge certain assets to banks. Details are set out in note 31 to the financial statements.

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 has 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 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

As at 31 December 2006, the Group had approximately 300 full-time staff in USA, Hong Kong and the PRC. The Group's remuneration policy is basically determined by the performance of individual employee and the market condition. The Group also provides other benefits to its employees, including medical schemes, pension contributions and share option schemes.

C. BUSINESS REVIEW

Electrical Control Equipment for Drilling Rigs

The business of the Group's rig electrical control system in 2006 experienced an increase in delivery and thus resulting in an increase in revenue due to the fact that more orders were secured and delivered in the Year. This phenomena indicated that the international and domestic demand for drilling rigs continued to be strong. During the Year, the Group completed assembling 37 sets of rig electric control systems. Another reason for the increase in revenue in this business segment was due to the sales in other markets outside the PRC. As planned in 2005 annual report, the Group put more sales and marketing efforts for promoting the Group's SCR/VFD electrical rig control systems in international markets. The third factor that jacked up the sales and gross profit margin of electrical equipment business in the Year was that the product mix was biased toward SCR system which offered higher profit margin. On the marketing front, the Group had signed letter of intent to provide jacking control system to an international offshore design firm which may lead to a solid contract in future. Another encouraging news by the end of 2006 was that the Group started construction of a production plant located in 西安高新區 (Xi'an Hi-tech Zone) which can increase the production capacity for rig electric control systems.

Expendable Parts and Accessories

During the Year, the Group's business of expendable parts also achieved a remarkable progress. Additional machinery was added such that the production capacity for expendables such as liner, piston, module was increased. The Group became a sole company in China capable of supplying A-1700 pump module to international markets.

On the market side, the total number of customers for the Group's expendable business reached 105, and the sales were more diversified away from customers.

In addition, the Group added more sales and sales supporting staff in its subsidiary in the USA in order to further strengthen the sales force.

Consultancy Services

In the Year, the Group focused its business of consultancy services on offshore drilling equipment. The Group's efforts in supplying equipment to customers in China directly produced a positive trading results.

Mud Pumps: New Products into Markets

In the Year, the Group made progresses in designing mud pumps. Three types of TSC-branded mud pump were launched. They were 360, 660 and 1200 series of horse power mud pump carrying a light weight with high volume.

By adding some machineries, the Group started producing its own TSC-branded mud pump and started delivery in late part of the Year.

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

The Group's budget for completing the factory construction in Xi'an was about RMB25 million including the costs of land which was paid in 2005. The Group planned to expand its Qingdao factory by building an annex to the existing workshop for RMB7 million. In addition, the Group planned to expend RMB4 million for new machinery for its Qingdao factory.

Save as disclosed above, the Group had no significant commitment as 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 as well as the cooperation with strategic partners 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 of the Company dated 21 November 2005.

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

The Directors still hold their belief that a public company should have a higher standard of management, both internally and externally. The Group will put more efforts to improve the management efficiency and execution capacity.

Looking forward, we will continue to put great importance to our customers by providing top quality products and services. Based on the achievements the Group made 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 step by step.

F. SUBSEQUENT EVENTS

In the Directors' meeting held on 26 March 2007, the Directors did not recommend any payment of cash dividend for 2006 but proposed for shareholders' approval for a bonus issue of shares to those shareholders whose names appear on the register of members of the Company on 7 May 2007 on the basis of one bonus share for every five existing shares held. The bonus shares will rank pari passu in all respect with the existing issued shares.

The following is a comparison between the actual business progresses and the business objectives as set out in the prospectus of the Company dated 21 November 2005 (the "Prospectus") for the period from 1 July 2006 to 31 December 2006.

Business objectives as stated in the Prospectus	Actual business progress
Development and introduction of new products:	
– complete the design and field test of the new mud pump under Group's own brand name	– Completed three types of TSC-brand mud pump design, test and mass production
– commence development of drilling instrumentations and offshore rig control panels	– Completed initial design of control system for jacking system
	– Commenced development of some offshore drilling equipment
– develop new lines of electrical equipment and other expendable parts for mud pumps	– Developed a new SCR/VFD hybrid control system
	– Developed AC/DC module for production in China
	– Developed A-1700 module and launched into international markets
Expansion of production facility:	
– complete relocation of production plant of HHCT	– Commenced the construction of production plant in Xi'an, production plant relocation was postponed to July 2007
Investment in related business:	
– identify any acquisition opportunity to expand new expendable product lines in the drilling industry	– Made an investment in an associate in China to produce jacking systems for offshore jack-up platforms
	– No acquisition target was determined, but several possible targets were identified

Business objectives as stated in the Prospectus	Actual business progress
Expansion of sales and marketing network:	
– set up sales office in Russia to expand the market coverage	– Postponed to 2007, but preparations were made
– recruit 2 to 3 people for Kazakhstan office	– Postponed
	– Studied feasibility to set up representative office in the Middle East
– recruit 1 sales manager and 1 sales executive for mud pumps in Houston office	– Recruited already
– participate in the Odessa Oil Show in the USA	– Participated successfully
– conduct regular technical seminars to customers to promote Group's products	– Conducted a series of seminars
– continue the running of advertisement in major industrial magazines and journals	– Advertisement were made in major industrial papers and journals

Use of Proceeds

The proceeds from the listing of the Company amounted to approximately RMB33.47 million (after deducting relevant listing expenses). Approximately RMB17.52 million was used in aggregate for the year ended 31 December 2006.

During the period from 1 July 2006 to 31 December 2006, approximately RMB8.07 million was used, and the balance of the proceeds was fully used up. Net proceeds were used as follows for the said period:

		Amount of net proceeds to be used from 1 July 2006 to 31 December 2006 as set out the Prospectus	Actual amount of net proceeds used from 1 July 2006 to 31 December 2006
		RMB million (Note)	RMB million
1.	Development and introduction of new products	3.33	3.39
2.	Expansion of production capacities	–	2.18
3.	Investments in related companies	2.29	2.50
4.	Expansion of sales and marketing network	1.56	–
5.	Repayment of amounts due to a director	–	–
6.	General working capital	–	–
		7.18	8.07

Note: Assuming the exchange rate of Hong Kong dollar to Renminbi is 1.04.

EXECUTIVE DIRECTORS

Mr. Zhang Menggui, aged 48, 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 24 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 56, 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 33 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 41, 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 43, 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 17 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 a GEM listed company, for the period from February 2001 to April 2003.

NON-EXECUTIVE DIRECTOR

Mr. Jiang Longsheng, aged 62, was appointed a non-executive Director in May 2006. Mr. Jiang is a veteran in offshore oil industry in China and has over 36 years of experience in the onshore and offshore oil industry in China. He received a Bachelor of Science degree from the Beijing Petroleum Institute (北京石油學院) in China in 1969. He was appointed as an executive director of CNOOC Limited ("CNOOC") (a company listed on the Main Board of the Stock Exchange) in 2000 to 2005 and had been the vice president of CNOOC from 1998 to 2005. From 1994 to 1998, he was the general manager of China Offshore Oil Southern Drilling Company. From 1991 to 1994, Mr. Jiang served as the deputy chief drilling engineer and was later appointed as the chief drilling engineer of China Offshore Oil Western South China Sea Corporation. Mr. Jiang has been the independent director of China National Pharmaceutical Group Corporation (中國醫藥集團公司) since December 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Bian Junjiang, aged 64, is an independent non-executive Director in October 2005. Mr. Bian presently serves as the chairman of CGC Overseas Construction Company Limited (中地海外建設有限公司責任公司) 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 42, is an independent non-executive Director in October 2005. Mr. Chan holds a bachelor degree in commerce obtained from the University of New South Wales in Australia 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 Committee Member 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, a company listed on GEM in Hong Kong.

Mr. Guan Zhichuan, aged 48, is an independent non-executive Director in 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 46, is a Vice President of the Group and Chief Representative of the Group in China who is responsible for overall operations of the Group's Beijing Representative Office and the Group's product development and marketing 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 Jingyao, aged 56, is appointed as Vice President of the Group in December 2005. He is charged with the responsibility of managing corporate planning and internal audit. 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 41, 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 60, is the 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 40, 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. Wong Kin Ming, Terry, aged 39, 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 15 years of financial and accounting experience.

Ms. Cheung Wai Sze, Candy, aged 31, is the company secretary of the Company since June 2006. She graduated from Curtin University of Technology, Australia with a bachelor degree in commence and obtained her master degree in professional accounting and information systems from City University of Hong Kong. She is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She has over 6 years of company secretarial and corporate affairs experience.

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 36 to 89.

DIVIDENDS AND PROPOSED BONUS ISSUE OF SHARES

The Directors do not recommend the payment of a cash dividend for 2006 but propose for shareholders' approval a bonus issue of shares to those shareholders whose names appear on the register of members of the Company on 7 May 2007 on the basis of one bonus share (the "Bonus Share") for every five existing shares held. The Bonus Shares will rank pari passu in all respects with the existing issued shares.

The bonus issue is conditional upon (a) the approval of the shareholders of the Company; and (b) the GEM Listing Committee of The Stock Exchange granting the listing of and permission to deal in the Bonus Shares.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 April 2007 to 7 May 2007 (both days inclusive), during which period no transfers of shares will be registered. To qualify for the proposed bonus issue, all shareholders are required to pledge their transfers with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 27 April 2007.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the four financial years ended 31 December 2006, as extracted from the audited financial statements of the Prospectus and the relevant annual reports of the Company, is set out on page 90. This summary does not form part of the audited financial statements of the Group for the Year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 16 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 35 to the financial statements. Details of the Company's share option schemes are set out in note 37 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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity on page 40, 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 2006, 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 49.2% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 19.2% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 36% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 9.4% 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 2006, out of total receivables, the Group had a normal trade receivable of approximately RMB13,232,000 which was the biggest trade receivable that the Group carried as at 31 December 2006 from one single customer.

DIRECTORS

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

Executive Directors:

Mr. Zhang Menggui
Mr. Jiang Bing Hua
Mr. Chen Yunqiang
Mr. Zhang Hongru

Non-executive Director:

Mr. Jiang Longsheng (Appointed on 1 May 2006)

Independent non-executive Directors:

Mr. Chan Ngai Sang, Kenny
Mr. Bian Junjiang
Mr. Guan Zhichuan

In accordance with Article 86 of the Company's articles of association, Mr. Jiang Longsheng who was appointed on 1 May 2006, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yunqiang, Mr. Chan Ngai Sang, Kenny and Mr. Bian Junjiang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Director 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 giving either party to the other not less than three months' prior written notice.

The non-executive Director, Mr. Jiang Longsheng, has entered into a service contract with the Company for a term of three years commencing from 1 May 2006 and expiring on 30 April 2009 unless terminated by giving either party to the other not less than three months' prior written notice.

Save as disclosed in note 10 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 37 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 14,166,000 share options remain valid and outstanding as at 31 December 2006.

For the year ended 31 December 2006, no options were granted under the Share Option Scheme and no options under the Share Option Scheme is outstanding as at 31 December 2006.

Details of the movement of options under the Pre-IPO Scheme during the year ended 31 December 2006 were 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 as at 1.1.2006**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31.12.2006**
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 Yunqing	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	432,000 (Note 4)	–	1,728,000
				11,700,000	432,000	–	11,268,000
Employees	19.10.2005	29.11.2005 to 28.11.2015	0.286	3,510,000	612,000 (Note 4)	–	2,898,000
Total				15,210,000	1,044,000	–	14,166,000

SHARE OPTION SCHEMES *(cont'd)*

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 semiannual 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.

4. 1,044,000 share options were exercised at an exercise price of HK$0.286 per share and the weighted average closing price immediately before the date of exercise of options was HK$1.07.

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 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 Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Interests in the Company

The table below sets out the aggregate long positions in the shares and underlying shares of the Directors and the chief executive of the Company.

	Number of issued ordinary shares of HK$0.10 each in the Company					Number of underlying shares (in respect of share options granted under the Pre-IPO Share Option Scheme)	Approximate percentage of the Company's issued share capital
Name of Directors	Personal interests	Family interests	Corporate interests	Other interests	Total	(Note 2)	
Mr. Zhang Menggui	74,143,000	–	–	–	74,143,000	3,600,000	32.25%
Mr. Jiang Bing Hua	74,143,000	–	–	–	74,143,000	3,600,000	32.25%
Mr. Chen Yunqiang	–	–	–	–	–	2,340,000	0.97%
Mr. Zhang Hongru (Note 1)	5,977,000	–	13,524,000	–	19,501,000	1,728,000	8.81%

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

Notes:

1. Mr. Zhang Hongru personally holds 5,977,000 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.

2. Please refer to note 37 to the financial statements for details of the Pre-IPO Scheme (as defined in note 37 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 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.

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 37 to the financial statements, at no time during the Year under review, no 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 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
Madam Chen Fengying (Note 1)	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.25%
Madam Zhang Jiuli (Note 2)	Interest of spouse	74,143,000 shares and 3,600,000 share options	32.25%
Madam Gao Haiping (Note 3)	Interest of spouse	19,501,000 shares and 1,728,000 share options	8.81%
Osbeck Investments Limited (Note 4)	Beneficially owned	13,524,000 shares	5.61%
Asian Infrastructure Limited (Note 5)	Beneficially owned	17,144,000 shares	7.11%

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 held 12,000,000 shares upon the listing of the Company on GEM in November 2005. As at 31 December 2006, the number of shares held by Asian Infrastructure Limited was 17,144,000 shares under Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(cont'd)*

Save as disclosed above, as at 31 December 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.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 40 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 ADVISER

Pursuant to a compliance adviser agreement dated 18 October 2006 made between the Company and Quam Capital Limited ("Quam"), Quam has been appointed as the compliance adviser to the Company as required under the GEM Listing Rules at a fee for the period from 18 October 2006 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 period from 18 October 2006 to 31 December 2007.

None of Quam, 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 2006.

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 30 to 33 of this report.

ON BEHALF OF THE BOARD
EMER International Group Limited

Zhang Menggui — *Chairman*
Jiang Bing Hua — *Co-chairman*

Hong Kong
26 March 2007

The Company continued to incorporate the essence of corporate governance into its management structure and internal control procedures, as we strove to maintain the highest standard in integrity and ethics in all aspects of our business activities, and to ensure the full compliance of our operations with applicable laws and regulations. By achieving high standards of corporate governance, the Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

CORPORATE GOVERNANCE PRACTICES

Throughout the Year, the Company applied the principles and complied with all applicable provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules during the period under review, except for the deviation from the provision A.2.1 of the Code as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

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 Year.

BOARD OF DIRECTORS

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 Profiles of Directors and Senior Management. 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 deviates from provision A.2.1 of the Code which stipulated that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. 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. 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. The Board believes that the structure outlined above is beneficial to the Company and its business at the present.

The Board comprises 8 Directors, including 4 executive Directors, namely Mr. Zhang Menggui, Mr. Jiang Bing Hua, Mr. Chen Yunqiang and Mr. Zhang Hongru; 1 non-executive Director, namely Mr. Jiang Longsheng; 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, independent non-executive and non-executive Directors commenced on 28 November 2005, 20 October 2005 and 1 May 2006 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 86, Mr. Jiang Longsheng who was appointed on 1 May 2006, will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election. Pursuant to Article 87, Mr. Chen Yunqiang, Mr. Chan Ngai Sang, Kenny, and Mr. Bian Junjiang will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 7 May 2007.

Members of the Board held a total of five meetings in which four full board meetings during the Year . 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 the Year mainly related to (i) reviews of the overall management and administration of the business of the Group; (ii) the approval of the Group's quarterly, interim and annual reports; and (iii) opening of bank accounts.

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.

During the Year, Board, Audit Committee and Remuneration Committee meetings were held, with details as follows:

	Meetings attended/held		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Mr. Zhang Menggui	5/5		1/1
Mr. Jiang Bing Hua	5/5		1/1
Mr. Chen Yunqiang	4/5		
Mr. Zhang Hongru	5/5		
Non-executive Director			
Mr. Jiang Longsheng*	2/3		
Independent Non-executive Directors			
Mr. Chan Ngai Sang, Kenny	3/4	3/4	0/1
Mr. Bian Junjiang	2/4	2/4	1/1
Mr. Guan Zhichuan	4/4	4/4	1/1

* Appointment dated 1 May 2006

REMUNERATION COMMITTEE

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.

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. During the Year, a meeting of the remuneration committee was held and 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 non-executive and 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. At present, the Company does not establish a nomination committee as set out in the recommended best practices 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. During the Year, Mr. Jiang Longsheng accepted the Board's invitation and was appointed as a non-executive Director for a term of 3 years with effect from 1 May 2006.

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 Articles 86 & 87, Mr. Jiang Longsheng, Mr. Chen Yunqiang, Mr. Chan Ngai Sang, Kenny, and Mr. Bian Junjiang will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 7 May 2007.

DIRECTORS RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 34 of this annual report.

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 approximately RMB768,000 (2005: 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.

Throughout the Year, the audit committee held four meetings in considering and reviewing the quarterly, interim and annual results of the Group and were 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.

The Company has designated a Group Vice President, namely Mr. Zhang Jingyao (張敬堯先生), in addition to other duties, with the responsibility for conducting internal auditing, reviewing the current internal control system and implementing measures to strengthen the implementation of the system. The Company will continue to make efforts in improving 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 hold and attend the annual general meeting each year to meet the shareholders and answer to their enquiries about the business of the Group.

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of EMER International Group Limited (the "Company") set out on pages 36 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2007

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TURNOVER	6	**216,449**	110,916
COST OF SALES		**(119,394)**	(63,995)
GROSS PROFIT		**97,055**	46,921
OTHER REVENUE	6	**4,852**	3,405
SELLING AND DISTRIBUTION EXPENSES		**(9,253)**	(4,434)
GENERAL AND ADMINISTRATIVE EXPENSES		**(51,254)**	(22,196)
OTHER OPERATING EXPENSES	7	**(2,654)**	(2,449)
PROFIT FROM OPERATIONS		**38,746**	21,247
FINANCE COSTS	8	**(1,224)**	(877)
SHARE OF LOSS OF AN ASSOCIATE		**(8)**	–
PROFIT BEFORE TAXATION	9	**37,514**	20,370
INCOME TAX	12	**(3,376)**	(1,013)
PROFIT FOR THE YEAR		**34,138**	19,357
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	13	**34,138**	19,357
DIVIDEND	14	**–**	–
EARNINGS PER SHARE			
– basic	15(a)	**RMB0.142**	RMB0.105
– diluted	15(b)	**RMB0.137**	RMB0.100

The notes on pages 43 to 89 form an integral part of these financial statements.

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**24,193**	13,367
Property under development	17	**2,294**	–
Intangible assets	18	**458**	558
Interest in leasehold land held for own use under operating leases	19	**8,886**	9,080
Investment in an associate	21	**2,492**	–
Deferred tax assets	33	**2,328**	2,789
		40,651	25,794
CURRENT ASSETS			
Interest in leasehold land held for own use under operating leases	19	**201**	198
Inventories	22	**57,752**	23,760
Due from a director	23	**100**	102
Due from an officer	24	**92**	1,333
Due from related companies	25	**631**	514
Due from an associate		**1,000**	–
Prepayments, deposits and other receivables		**3,089**	4,463
Trade receivables	26	**63,304**	45,477
Advance to suppliers		**16**	3,495
Bills receivable		**22,150**	2,300
Value added tax recoverable		**1,346**	1,564
Cash and bank balances	34	**23,366**	31,254
		173,047	114,460
CURRENT LIABILITIES			
Bank overdrafts		**–**	60
Trade payables	27	**23,738**	14,627
Other payables and accruals		**7,547**	6,595
Deposits received		**6,272**	1,536
Due to directors	28	**–**	538
Due to a related company	29	**11**	–
Bills payable, secured		**16,190**	2,300
Tax payables	30	**4,151**	4,354
Bank loans, secured	31	**18,849**	7,779
Obligations under finance leases	32	**–**	42
		76,758	37,831
NET CURRENT ASSETS		**96,289**	76,629
TOTAL ASSETS LESS CURRENT LIABILITIES		**136,940**	102,423

The notes on pages 43 to 89 form an integral part of these financial statements.

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	32	**–**	113
Deferred tax liabilities	33	**269**	25
		269	138
NET ASSETS		**136,671**	102,285
CAPITAL AND RESERVES			
Share capital	35	**25,066**	24,960
Reserves	36	**111,605**	77,325
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**136,671**	102,285

Approved and authorised for issue by the board of directors on 26 March 2007

On behalf of the board

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 43 to 89 form an integral part of these financial statements.

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Investment in subsidiaries	20	**166**	166
Deferred tax assets	33	**–**	79
		166	245
CURRENT ASSETS			
Prepayment, deposits and other receivables		**107**	104
Due from subsidiaries		**26,915**	16,744
Dividend receivable		**22,871**	–
Cash and bank balances – unrestricted		**5,554**	20,758
		55,447	37,606
CURRENT LIABILITIES			
Other payables and accruals		**900**	2,461
Due to directors	28	**–**	399
Due to subsidiaries		**11**	224
		911	3,084
NET CURRENT ASSETS		**54,536**	34,522
TOTAL ASSETS LESS CURRENT LIABILITIES		**54,702**	34,767
CAPITAL AND RESERVES			
Share capital	35	**25,066**	24,960
Reserves	36	**29,636**	9,807
		54,702	34,767

Approved and authorised for issue by the board of directors on 26 March 2007

On behalf of the board

Zhang Menggui
Director

Jiang Bing Hua
Director

The notes on pages 43 to 89 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

		Reserves									
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note 36(a))	Exchange fluctuation reserve RMB'000 (Note 36(b))	Employee share-based compensation reserve RMB'000	Capital reserve RMB'000 (Note 36(c))	Statutory surplus reserve RMB'000 (Note 36(d))	Statutory public welfare fund RMB'000 (Note 36(e))	Retained profits RMB'000	Subtotal RMB'000	Total RMB'000
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
Transferred 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
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
Shares issued under share option scheme	106	198	–	–	–	–	–	–	–	198	304
Transferred to share premium upon exercise of employee share options	–	192	–	–	(192)	–	–	–	–	–	–
Employee share-based payment expenses	–	–	–	–	1,294	–	–	–	–	1,294	1,294
Movement in exchange fluctuation reserve	–	–	–	(197)	–	–	–	–	–	(197)	(197)
Staff welfare expenses	–	–	–	–	–	–	–	(1,153)	–	(1,153)	(1,153)
Profit for the year	–	–	–	–	–	–	–	–	34,138	34,138	34,138
Transferred from retained profits	–	–	–	–	–	–	3,064	1,314	(4,378)	–	–
At 31 December 2006	**25,066**	**9,068**	**17,724**	**(355)**	**2,604**	**4,138**	**7,082**	**1,839**	**69,505**	**111,605**	**136,671**

The notes on pages 43 to 89 form an integral part of these financial statements.

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**37,514**	20,370
Adjustments for:		
Loss on disposals of property, plant and equipment	**165**	–
Impairment losses on bad and doubtful debts	**964**	1,699
Reversal of impairment losses on bad and doubtful debts	**(1,042)**	(1,143)
Interest income	**(464)**	(107)
Finance costs	**1,224**	877
Depreciation	**2,517**	1,086
Amortisation of intangible assets	**100**	100
Amortisation of leasehold land held for own use	**81**	37
Employee share-based payment expenses	**1,294**	1,502
Share of loss of an associate	**8**	–
Operating profit before working capital changes	**42,361**	24,421
Increase in inventories	**(33,992)**	(12,215)
Decrease/(increase) in amount due from a director	**2**	(102)
Decrease/(increase) in amount due from an officer	**1,241**	(1,201)
(Increase)/decrease in amount due from related companies	**(117)**	172
Increase in amount due from an associate	**(1,000)**	–
Decrease/(increase) in prepayments, deposits and other receivables	**1,374**	(1,553)
Increase in trade receivables	**(17,749)**	(7,706)
Decrease/(increase) in advance to suppliers	**3,479**	(1,667)
Increase in bills receivable	**(19,850)**	(300)
Decrease/(increase) in value added tax recoverable	**218**	(1,450)
Increase in trade payables	**9,111**	4,869
Increase in other payables and accruals	**952**	5,425
Increase in deposits received	**4,736**	1,536
Decrease in amount due to directors	**(538)**	(3,935)
Increase/(decrease) in amount due to a related company	**11**	(4,170)
Increase in bills payable, secured	**13,890**	1,300
(Decrease)/increase in value added tax payables	**(1,395)**	1,329
CASH GENERATED FROM OPERATIONS	**2,734**	4,753
Mainland China enterprise income tax paid	**(1,481)**	(745)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,253**	4,008
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(13,506)**	(8,061)
Construction expenditure of property under development	**(2,184)**	–
Purchase of leasehold land held for own use	**–**	(5,773)
Interest income	**464**	107
(Increase)/decrease in restricted bank balances	**(1,530)**	550
NET CASH USED IN INVESTING ACTIVITIES	**(16,756)**	(13,177)

The notes on pages 43 to 89 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
FINANCING ACTIVITIES			
Proceeds from issue of share capital		**304**	45,552
Share issue expenses		**–**	(12,080)
Investment in an associate		**(2,500)**	–
Utilization of public welfare fund		**(1,153)**	(330)
Interest paid		**(831)**	(866)
Proceeds from new bank loans		**14,070**	4,553
Repayment of bank loans		**(3,000)**	–
Repayment of loan from a related party		**–**	(1,326)
Inception of finance leases		**–**	165
Capital elements of finance lease rentals paid		**(155)**	(72)
Interest elements of finance lease rentals paid		**(393)**	(11)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**6,342**	35,585
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(9,161)**	26,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**31,194**	4,936
Change in foreign exchange fluctuation reserve		**(197)**	(158)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**21,836**	31,194
ANALYSIS OF THE BALANCES CASH AND CASH EQUIVALENTS			
Unrestricted cash and bank balances	34	**21,836**	31,254
Bank overdrafts		**–**	(60)
		21,836	31,194

The notes on pages 43 to 89 form an integral part of these financial statements.

1. CORPORATE INFORMATION

EMER International Group Limited (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 (Law 3 of 1961, as consolidated and 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.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 20 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. The accounting policies of the Group and the Company after the adoption of these new and revised HKFRSs have been summarised below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 43). The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 and 6 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4 – Determining whether an Arrangement contains a Lease; and
- HKFRS-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Subsidiaries

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(j)).

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

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss relating to the investment in associates recognized for the year (see note 2(j)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

(e) Intangible assets

Intangible assets that are acquired by the Group represent purchase cost for the technical knowledge in development and manufacturing of electrical equipment are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)).

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

Both the period and method of amortisation are reviewed annually.

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

(f) Revenue recognition

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

(i) sales of goods are 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.

(g) 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(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(j)).

(h) 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(j)).

– 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)).

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.

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

(h) Property, plant and equipment *(cont'd)*

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 fittings	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.

(i) Property under development

Property under development represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct cost of construction. Property under development is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

– interest in leasehold land held for own use under operating leases;
– property, plant and equipment;
– intangible assets; and
– investment in subsidiaries and an associate.

If any such indication exists, the asset's recoverable amount is estimated.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(j) 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.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(l) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(m) 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 and associates, 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 and associates, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(n) Related parties

For the purpose 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.

(o) 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. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the income statement.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(p) Employee benefits

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

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

(ii) Share-based compensation

For share options granted under the share option scheme, the fair value of the employee services received in exchange for the grant of the options is recognized as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in the income statement over the remaining vesting period, with a corresponding adjustment to the employee share-based compensation reserve.

When the options are exercised, the proceeds received are credited to share capital (nominal value) and share premium, and the associated amount in the employee share-based compensation reserve, if any, is transferred to share.

(iii) Termination benefits

Termination benefits are recognized when, and only when, the group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) 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.

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

(q) Leased assets *(cont'd)*

(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 the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h).

Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(j). Finance charges implicit in the lease payments are charged to profit or loss 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 profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(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.

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

(r) Segment reporting *(cont'd)*

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 period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

(s) Borrowing costs

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

(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 profit or loss over the period of the borrowings using the effective interest method.

(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.

(v) Research and development costs

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the company intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the company, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

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 and the United States of America. Most of the Group's transactions, assets and liabilities are dominated in RMB or United States 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 31 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 ongoing 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.

(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 to 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 managed 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	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Turnover	**106,689**	43,464	**105,556**	63,207	**4,204**	4,245	**216,449**	110,916
Other revenue	**2,081**	3,205	**1,264**	93	**1,043**	–	**4,388**	3,298
	108,770	46,669	**106,820**	63,300	**5,247**	4,245	**220,837**	114,214
Segment results	**33,694**	9,839	**3,749**	8,998	**5,920**	4,398	**43,363**	23,235
Unallocated costs							**(5,081)**	(2,095)
Interest income							**464**	107
Profit from operations							**38,746**	21,247
Finance costs							**(1,224)**	(877)
Share of loss of an associate							**(8)**	–
Profit before taxation							**37,514**	20,370
Income tax							**(3,376)**	(1,013)
Profit for the year							**34,138**	19,357
Segment assets	**96,802**	51,114	**105,794**	56,244	**2,832**	7,134	**205,428**	114,492
Unallocated assets							**8,270**	25,762
Total assets							**213,698**	140,254
Segment liabilities	**27,421**	10,821	**48,105**	23,645	**601**	161	**76,127**	34,627
Unallocated liabilities							**900**	3,342
Total liabilities							**77,027**	37,969
Capital expenditure	**3,627**	5,734	**12,054**	7,830	**9**	270	**15,690**	13,834
Depreciation	**555**	437	**1,849**	571	**113**	78	**2,517**	1,086
Amortisation	**100**	100	**81**	37	**–**	–	**181**	137

5. SEGMENT INFORMATION *(cont'd)*

(b) Geographical segments

	Turnover		Segment results		Total assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Hong Kong	**–**	–	**–**	–	**11,893**	33,057	**9**	228
Mainland China	**111,315**	46,618	**34,668**	15,025	**143,320**	77,476	**9,048**	13,099
USA	**76,932**	50,162	**5,737**	6,047	**58,476**	29,721	**6,633**	507
Others (Asia, Europe, Russia etc.)	**28,202**	14,136	**2,958**	2,163	**–**	–	**–**	–
	216,449	110,916	**43,363**	23,235	**213,689**	140,254	**15,690**	13,834
Interest income			**464**	107				
Unallocated costs			**(5,081)**	(2,095)				
Profit from operations			**38,746**	21,247				
Unallocated assets					**9**	–	**–**	–
Total					**213,698**	140,254	**15,690**	13,834

6. TURNOVER AND OTHER REVENUE

The principal activities of the Group are manufacturing and trading of electrical equipment and expendable parts and accessories and provision of consultancy services. Turnover represents the sales value of goods supplied to customers net of return, discount and sales tax and revenue from consultancy service.

	2006 RMB'000	2005 RMB'000
Turnover		
Sales of electrical equipment	106,689	43,464
Sales of expendable parts and accessories	105,556	63,207
Consultancy services fee income	4,204	4,245
	216,449	110,916
Other revenue		
Interest income	464	107
Rental income	1,261	94
Gain on sales of accessories	2,076	2,061
Reversal of impairment losses on bad and doubtful debts	1,042	1,143
Other income	9	–
	4,852	3,405
Total revenue	221,301	114,321

7. OTHER OPERATING EXPENSES

	2006 RMB'000	2005 RMB'000
Amortisation of intangible assets	100	100
Exchange loss	1,347	650
Loss on disposals of property, plant and equipment	165	–
Impairment losses on bad and doubtful debts	964	1,699
Others	78	–
	2,654	2,449

8. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank loans wholly repayable within five years	**678**	812
Finance charges on obligations under finance leases	**393**	11
Interest on loan from related parties wholly repayable within five years	**–**	54
Interest on other loans	**153**	–
	1,224	877

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 RMB'000	2005 RMB'000
(a) Staff cost# (excluding directors' remuneration)		
Wages, salaries and other benefits	**21,114**	10,226
Employee share-based payment expenses	**299**	346
Contributions to retirement benefit schemes	**748**	472
	22,161	11,044
(b) Other items		
Auditors' remuneration	**768**	600
Amortisation of leasehold land held for own use#	**191**	37
Less: Capitalization on amortisation of interests in leasehold land under property under development	**(110)**	–
	81	37
Depreciation#		
– Owned assets	**2,517**	972
– Assets held under finance leases	**–**	114
	2,517	1,086
Minimum lease payments under operating leases in respect of land and buildings	**2,007**	1,302
Research and development costs	**1,367**	–
Cost of inventories#	**119,394**	63,995

Cost of inventories includes RMB4,005,000 (2005: RMB1,904,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 9 (a) for each of these types of expenses.

10. DIRECTORS' REMUNERATION

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

	Year ended 31 December 2006				
	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	–	2,441	94	306	2,841
Mr. Jiang Bing Hua	–	2,441	94	306	2,841
Mr. Chen Yunqiang	–	1,085	7	199	1,291
Mr. Zhang Hongru	–	1,390	13	184	1,587
Independent Non-executive Directors:					
Mr. Bian Junjiang	124	–	–	–	124
Mr. Chan Ngai Sang, Kenny	149	–	–	–	149
Mr. Guan Zhichuan	124	–	–	–	124
Non-executive Director:					
Mr. Jiang Longsheng	83	–	–	–	83
Total	480	7,357	208	995	9,040

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

	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. INDIVIDUALS WITH HIGHEST PAID

Of the five highest paid individuals of the Group four (2005: three) are directors whose remuneration are disclosed in note 10. Details of remuneration paid to the other one (2005: two) highest paid individuals are as follows:

	2006 RMB'000	2005 RMB'000
Basic salaries, allowances and other benefits	**1,155**	1,756
Retirement benefit scheme benefits	**61**	68
Employee share-based payment expenses	**31**	35
	1,247	1,859

11. INDIVIDUALS WITH HIGHEST PAID *(cont'd)*

The remunerations of the one (2005: two) individuals with the highest paid are within the following bands:

	Number of individuals 2006	2005
HK$Nil (equivalent to RMBNil) – HK$1,000,000 (equivalent to RMB1,040,000)	**–**	1
HK$1,000,001 (equivalent to RMB1,040,001) – HK$1,500,000 (equivalent to RMB1,560,000)	**1**	1

12. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2006 RMB'000	2005 RMB'000
Current tax		
USA income tax	**534**	779
Mainland China enterprise income tax	**1,458**	1,355
	1,992	2,134
Over-provision in respect of prior years		
Mainland China enterprise income tax	**679**	–
Deferred tax		
Reversal of temporary differences (note 33)	**705**	(1,121)
Tax expense	**3,376**	1,013

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 owned foreign enterprises located in Industrial Development Zone and High Tech Industrial Development Zone in mainland China 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) and is entitled to a 50% reduction on the EIT for the following three years of operations after offsetting prior year losses (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.

12. INCOME TAX *(cont'd)*

(a) Taxation in the consolidated income statement represents: *(cont'd)*

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 years beginning 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 owned foreign 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.

Income tax for other overseas subsidiaries is charged at the appropriate rates based on current tax rules and regulations in the relevant countries.

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

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**37,514**	20,370
Tax at domestic income tax rate applicable to profits in the countries concerned	**5,263**	3,653
Tax effect of non-deductible expenses	**2,932**	3,325
Utilised previously un-recognised tax loss	**–**	(1)
Under-provision in prior years	**465**	–
Tax effect of tax exemptions	**(2,542)**	(1,522)
Tax effect of tax loss not recognized	**1,014**	584
Tax effect of non-taxable income	**(3,756)**	(5,026)
Tax expense	**3,376**	1,013

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes profit of RMB18,337,000 (2005: loss of RMB373,000) which has been dealt with in the financial statements of the Company.

14. DIVIDEND

The directors do not recommend any payment of a cash dividend for 2006 (2005: Nil) but propose for shareholders' approval for a bonus issue of shares as stated in note 41.

15. 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 RMB34,138,000 (2005: RMB19,357,000) and the weighted average number of 240,046,652 (2005: 185,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB34,138,000 (2005: RMB19,357,000) and the weighted average number of 249,333,689 (2005: 193,465,029) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**240,046,652**	185,000,000
Effect of dilutive potential shares from the share options scheme	**9,287,037**	8,465,029
Weighted average number of ordinary shares used in calculating diluted earnings per share	**249,333,689**	193,465,029

16. 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 improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost							
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
At 1 January 2006	4,615	1,500	5,922	175	725	2,809	15,746
Exchange adjustments	–	(3)	–	(3)	–	(8)	(14)
Additions	335	1,175	8,907	202	444	2,457	13,520
Disposals	–	(14)	–	(5)	–	(223)	(242)
At 31 December 2006	**4,950**	**2,658**	**14,829**	**369**	**1,169**	**5,035**	**29,010**
Accumulated depreciation							
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
At 1 January 2006	44	434	925	57	349	570	2,379
Charge for the year	127	382	1,030	46	236	696	2,517
Exchange adjustments	–	–	–	–	–	(2)	(2)
Written back on disposals	–	(5)	–	(5)	–	(67)	(77)
At 31 December 2006	**171**	**811**	**1,955**	**98**	**585**	**1,197**	**4,817**
Net book value							
At 31 December 2006	**4,779**	**1,847**	**12,874**	**271**	**584**	**3,838**	**24,193**
At 31 December 2005	4,571	1,066	4,997	118	376	2,239	13,367

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

17. PROPERTY UNDER DEVELOPMENT

The Group

	2006 RMB'000	2005 RMB'000
Construction expenditure	**2,184**	–
Capitalization on amortisation of interests in leasehold land	**110**	–
	2,294	–

The property under development is situated on the leasehold land in Xian, mainland China held under a land use right for a period of 50 years up to 10 August 2055.

18. INTANGIBLE ASSETS

The Group

	Technical knowledge RMB'000
Cost	
At 1 January 2005, 31 December 2005 and 31 December 2006	1,000
Accumulated amortisation	
At 1 January 2005	342
Charge for the year	100
At 31 December 2005	442
At 1 January 2006	442
Charge for the year	100
At 31 December 2006	**542**
Net book value	
At 31 December 2006	**458**
At 31 December 2005	558

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

19. INTEREST 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
At 1 January 2006	9,315
Additions	–
At 31 December 2006	**9,315**
Accumulated amortisation	
At 1 January 2005	–
Charge for the year	37
At 31 December 2005	37
At 1 January 2006	37
Charge for the year	191
At 31 December 2006	**228**
Net book value	
At 31 December 2006	**9,087**
At 31 December 2005	9,278

	2006 RMB'000	2005 RMB'000
Represented by:		
Current portion	**201**	198
Long-term portion	**8,886**	9,080
	9,087	9,278

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

20. INVESTMENT IN SUBSIDIARIES

The Company

	2006 **RMB'000**	2005 RMB'000
Unlisted shares, at cost	**166**	166

Particulars of the subsidiaries as at 31 December 2006 were as follows:

Name of company	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 (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 RMB17,000,000	–	100%	Manufacturing and trading of electrical equipment

20. INVESTMENT IN SUBSIDIARIES *(cont'd)*

Name of company	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
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
FG Manufacturing Limited	Hong Kong	Ordinary shares of HK$100	–	100%	Not yet commenced business
Qingdao EMER Offshore Equipment Co., Ltd (Note a)	mainland China	Registered capital of US$210,000	–	100%	Not yet commenced business
埃謨(北京)油氣裝備技術有限公司	mainland China	Registered capital of US$150,000	–	100%	Closed and de-registered in September 2006

Note:

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

21. INVESTMENT IN AN ASSOCIATE

The Group

	2006 RMB'000	2005 RMB'000
Share of net assets	**2,492**	–

Particulars of the associate as at 31 December 2006 were as follows:

Name of company	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group Directly	Indirectly	Principal activity
鄭州富格海洋工程裝備有限公司*	mainland China	Registered capital of RMB 10,000,000	–	25%	Not yet commenced business

Summary financial information on the associate

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Loss RMB'000
2006					
100 per cent	**11,025**	**(1,059)**	**9,966**	**–**	**34**
Group's effective interest	**2,757**	**(265)**	**2,492**	**–**	**8**

* The company is a joint venture limited company established in mainland China.

22. INVENTORIES

The Group

	2006 RMB'000	2005 RMB'000
Raw materials	**7,934**	4,458
Work-in-progress	**18,806**	9,138
Finished goods	**31,012**	10,164
	57,752	23,760

23. DUE FROM A DIRECTOR

The Group

Mr. Zhang Menggui

	2006	2005
	RMB'000	RMB'000
Balance at beginning of the year	**102**	–
Balance at end of the year	**100**	102
Maximum debit balance during the year	**102**	102

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

24. DUE FROM AN OFFICER

The Group

Mr. Jiang Bingyang

	2006	2005
	RMB'000	RMB'000
Balance at beginning of the year	**1,333**	132
Balance at end of the year	**92**	1,333
Maximum debit balance during the year	**1,333**	1,333

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

The amount represented fund advance to Mr. Jiang Bingyang and was unsecured, non-interest bearing and without pre-determined repayment terms.

25. DUE FROM RELATED COMPANIES

The Group

	2006 RMB'000	2005 RMB'000
Balance at beginning of the year		
– Katy Industries Inc.	–	686
– Katy International Inc.	514	–
	514	686
Balance at end of the year		
– Katy Industries Inc.	–	–
– Katy International Inc.	631	514
	631	514
Maximum debit balance during the year		
– Katy Industries Inc.	–	686
– Katy International Inc.	631	514

The amounts represent fund advanced and expenses paid on behalf of Katy Industries Inc. and Katy International Inc. and were unsecured, non-interest bearing and without pre-determined repayment terms.

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

26. 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:

	2006 **RMB'000**	2005 RMB'000
0 to 30 days	**29,888**	17,249
31 to 60 days	**13,843**	19,967
61 to 90 days	**5,494**	1,226
91 to 120 days	**411**	72
121 to 365 days	**12,704**	6,057
1 to 2 years	**964**	906
	63,304	45,477
Represented by:		
Gross amount	**66,246**	48,654
Less: impairment losses on bad and doubtful debts	**(2,942)**	(3,177)
	63,304	45,477

27. TRADE PAYABLES

The Group

The aging analysis of the trade payables is as follows:

	2006 RMB'000	2005 RMB'000
0 to 30 days	**10,644**	7,441
31 to 60 days	**6,435**	3,678
61 to 90 days	**3,665**	1,752
91 to 120 days	**1,821**	534
121 to 365 days	**1,128**	1,142
1 to 2 years	**45**	18
Over 2 years	**–**	62
	23,738	14,627

28. DUE TO DIRECTORS

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Mr. Jiang Bing Hua	**–**	325	**–**	186
Mr. Zhang Menggui	**–**	186	**–**	186
Mr. Zhang Hongru	**–**	27	**–**	27
	–	538	**–**	399

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

29. DUE TO A RELATED COMPANY

The Group

The amount was unsecured, non-interest bearing and without pre-determined terms of repayment.

Mr. Zhang Menggui and Mr. Jiang Bing Hua are directors of and each has 50% beneficial interest in the related company.

30. TAX PAYABLES

The Group

	2006 RMB'000	2005 RMB'000
Business tax	**481**	481
Value added tax	**414**	1,809
Income tax	**3,256**	2,064
	4,151	4,354

31. BANK LOANS, SECURED

The Group

	2006 RMB'000	2005 RMB'000
Bank loans payable within 1 year	**18,849**	7,779

The bank loans carried interests at rates ranging from 5.022% to 12% per annum (2005: 6.25% to 8.75% per annum) and were secured by:

(i) All assets of a subsidiary namely TSC (USA) to the extent of banking facilities of 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) Land lease premium held for own use, buildings and machineries of two subsidiaries namely 青島天時 and 海爾海斯of RMB9,087,000 RMB4,779,000 and RMB8,128,000 respectively.

(v) Trade receivables of a subsidiary namely 海爾海斯 to the extent of RMB37,799,000 as at 31 December 2006.

32. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2006, the Group had obligations under finance leases repayable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts repayable:				
Within one year	–	53	–	42
In the second year	–	39	–	31
In the third to fifth years, inclusive	–	90	–	82
Total minimum finance lease payments	–	182	–	155
Less: Future finance charges	–	(27)		
Total net finance leases payable	–	155		
Less: Portion classified as current liabilities	–	(42)		
Long-term portion	–	113		

33. DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

The Group

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

	Accelerated tax depreciation RMB'000	Impairment losses on bad and doubtful debts RMB'000	Impairment losses on inventories RMB'000	Tax losses RMB'000	Unrealized profits RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:							
At 1 January 2005	(34)	(440)	(214)	–	(1,301)	346	(1,643)
(Credited)/charged to the consolidated 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)
At 1 January 2006	(75)	(273)	(76)	(1,144)	(1,420)	224	(2,764)
(Credited)/charged to the consolidated income statement	10	(75)	–	1,144	(641)	267	705
At 31 December 2006	**(65)**	**(348)**	**(76)**	**–**	**(2,061)**	**491**	**(2,059)**

	2006 RMB'000	2005 RMB'000
Represented by:		
Net deferred tax assets recognised on the consolidated balance sheet	**(2,328)**	(2,789)
Net deferred tax liabilities recognised on the consolidated balance sheet	**269**	25
	(2,059)	(2,764)

33. DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED *(cont'd)*

The Company

The deferred tax assets arising from tax loss recognized in the balance sheet and the movements during the year were as follows:

	RMB'000
At 1 January 2005	–
Credited to the income statement	(79)
At 31 December 2005	(79)
At 1 January 2006	**(79)**
Charged to the income statement	**79**
At 31 December 2006	**–**

34. CASH AND BANK BALANCES

The Group

	2006 RMB'000	2005 RMB'000
Restricted bank balances	**1,530**	–
Unrestricted cash and bank balances	**21,836**	31,254
	23,366	31,254

As at 31 December 2006, the restricted bank balances represented the monies charge over deposits executed by the Group in favour of the bank for general banking facility with the limit of HK$500,000 (equivalent RMB510,000).

35. SHARE CAPITAL

The Group and the Company

	2006		2005	
	No. of shares '000	RMB'000	No. of shares '000	RMB'000
Authorised:				
Ordinary share of HK$0.1 each	**1,000,000**	**104,000**	1,000,000	104,000
Ordinary shares, issued and fully paid:				
At 1 January	**240,000**	**24,960**	–	–
Shares issued under share option scheme	**1,044**	**106**	–	–
Allotment of share	**–**	**–**	20	2
Placing	**–**	**–**	60,000	6,240
Capitalisation issue	**–**	**–**	179,980	18,718
At 31 December	**241,044**	**25,066**	240,000	24,960

36. RESERVES

The Group

	Share premium RMB'000	Merger reserve RMB'000 (Note (a))	Exchange fluctuation reserve RMB'000 (Note (b))	Employee share-based compensation 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 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
Capitalisation 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
Transferred 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
At 1 January 2006	8,678	17,724	(158)	1,502	4,138	4,018	1,678	39,745	77,325
Shares issued under share option scheme	198	–	–	–	–	–	–	–	198
Transferred to share premium upon exercise of employee share options	192	–	–	(192)	–	–	–	–	–
Employee share-based payment expenses	–	–	–	1,294	–	–	–	–	1,294
Movement in exchange fluctuation reserve	–	–	(197)	–	–	–	–	–	(197)
Staff welfare expenses	–	–	–	–	–	–	(1,153)	–	(1,153)
Profit for the year	–	–	–	–	–	–	–	34,138	34,138
Transferred from retained profits	–	–	–	–	–	3,064	1,314	(4,378)	–
At 31 December 2006	**9.068**	**17,724**	**(355)**	**2,604**	**4,138**	**7,082**	**1,839**	**69,505**	**111,605**

36. RESERVES *(cont'd)*

The Company

	Share premium RMB'000	**Employee share-based payment reserve** RMB'000	**Retained earnings/ (Accumulated losses)** RMB'000	**Total** 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
Capitalisation 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
At 1 January 2006	8,678	1,502	(373)	9,807
Shares issued under share option scheme	198	–	–	198
Transferred to share premium upon exercise of employee share options	192	(192)	–	–
Employee share-based payment expenses	–	1,294	–	1,294
Profit for the year	–	–	18,337	18,337
At 31 December 2006	**9,068**	**2,604**	**17,964**	**29,636**

36. RESERVES *(cont'd)*

(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 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 polices set out in Note 2(o).

(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.

(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's reserve available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2006, as computed in accordance with the Companies Law of the Cayman Islands of approximately of RMB17,964,000 (2005: Nil). The Company's share premium account, with a balance of approximately RMB9,068,000 (2005: RMB8,678,000), may be distributed in the form of fully paid bonus shares.

37. 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 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 lapsed since the date of grant and up to 31 December 2005. During the year, 1,044,000 (2005: Nil) number of share options were exercised and the Company had 14,166,000 (2005:15,210,000) share options outstanding as at the balance sheet date.

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 latter of twelve months following the listing date (i.e. 28 November 2005) or such period as may be required by the Stock Exchange of 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.

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 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 Boards, have contributed to the Group. Upon acceptance of the option, the grantee shall pay RMB1.04 (equivalent to HK$1) to the Company as consideration for the grant.

37. SHARE OPTIONS *(cont'd)*

Share Option Scheme *(cont'd)*

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.

37. 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:

	2006		2005	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Options granted to directors:				
Outstanding at the beginning of the year	**HK$0.286**	**11,700**	–	–
Granted during the year	**–**	**–**	HK$0.286	11,700
Exercise during the year	**HK$0.286**	**(432)**	–	–
Lapsed during the year	**–**	**–**	–	–
Outstanding at the end of the year	**HK$0.286**	**11,268**	HK$0.286	11,700
Options granted to employees:				
Outstanding at the beginning of the year	**HK$0.286**	**3,510**	–	–
Granted during the year	**–**	**–**	HK$0.286	3,510
Exercise during the year	**HK$0.286**	**(612)**	–	–
Lapsed during the year	**–**	**–**	–	–
Outstanding at the end of the year	**HK$0.286**	**2,898**	HK$0.286	3,510

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.286 (2005: not applicable).

(b) Fair value of share options and assumptions:

The estimated fair value of the options granted on 1 February 2005 (Oxford Share Option) was 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:

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.

37. SHARE OPTIONS *(cont'd)*

(b) Fair value of share options and assumptions: *(cont'd)*

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

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.

38. EMPLOYEE RETIREMENT BENEFITS

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 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 USA.

39. COMMITMENTS

(a) Capital commitments

The capital commitments outstanding at 31 December 2006 of the Group not provided for in the financial statements were as follows:

	2006	2005
	RMB'000	RMB'000
Contracted for	**8,453**	7,174

(b) Operating lease commitments

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2006	2005
	RMB'000	RMB'000
Within one year	**1,441**	2,237
Between one year and five years	**1,537**	2,395
After five years	**328**	465
	3,306	5,097

40. 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:

	2006	2005
	RMB'000	RMB'000
Key management personnel remuneration	**3,764**	2,650
Purchases of parts for electrical equipment	**–**	160
Rental income	**–**	95
Sales of expendable parts	**145**	–

41. NON-ADJUSTING POST BALANCE SHEET EVENTS

In the Directors' meeting held on 26 March 2007, the Directors did not recommend any payment of cash dividend for 2006 but proposed for shareholders' approval for a bonus issue of shares to those shareholders whose names appear on the register of members of the Company on 7 May 2007 on the basis of one bonus share for every five existing shares held. The bonus shares will rank pari passu in all respect with the existing issued shares.

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

43. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE, FOR THE YEAR ENDED 31 DECEMBER 2006

The Group has not early applied the following amendments, new standard and interpretations that have been issued but are not yet effective. The director of the company anticipates that the application of these standards or interpretations will have no material impacts on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transations[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007

Four 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			
	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**216,449**	110,916	105,782	43,182
Cost of sales	**(119,394)**	(63,995)	(66,437)	(32,082)
Gross profit	**97,055**	46,921	39,345	11,100
Other revenue	**4,852**	3,405	2,085	811
Selling and distribution expenses	**(9,253)**	(4,434)	(1,416)	(1,007)
General and administrative expenses	**(51,254)**	(22,196)	(8,988)	(5,233)
Other operating expenses	**(2,654)**	(2,449)	(2,492)	(1,913)
Profit from operations	**38,746**	21,247	28,534	3,758
Finance costs	**(1,224)**	(877)	(126)	(64)
Share of loss of an associate	**(8)**	–	–	–
Profit before taxation	**37,514**	20,370	28,408	3,694
Income tax	**(3,376)**	(1,013)	657	311
PROFIT FOR THE YEAR	**34,138**	19,357	29,065	4,005

ASSETS AND LIABILITIES

	As at 31 December			
	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**40,651**	25,794	12,164	4,572
Current assets	**173,047**	114,460	63,109	32,089
Current liabilities	**76,758**	37,831	26,809	24,680
Net current assets	**96,289**	76,629	36,300	7,409
Non-current liabilities	**269**	138	22	144
Net assets	**136,671**	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 the incorporation where this is a shorter period. The consolidated results of the Group for the years ended 31 December 2006 and 2005 are as set out on page 36 of the audited financial statements.

2. The consolidated balance sheets of the Group as at 31 December 2006 and 2005 are as set out on pages 37 to 38 of the audited financial statements.