



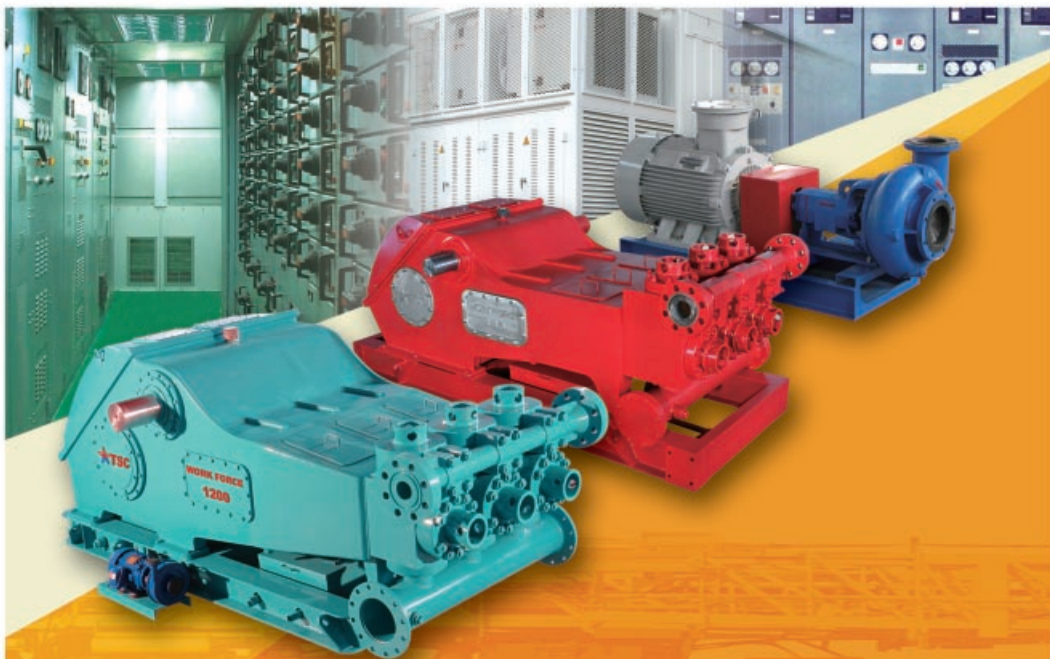
EMER INTERNATIONAL GROUP LIMITED

埃謨國際集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8149

Interim Report



07

*For identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principle means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

RESULTS HIGHLIGHTS

- The Group's sales for the six months ended 30 June 2007 reached approximately RMB102.4 million, representing an approximately 6.7% increase over the same period for 2006;
- Gross profit amounted to approximately RMB45.1 million for the six months ended 30 June 2007, representing an approximately 6.2% increase over the same period for 2006;
- Net profit amounted to approximately RMB12.7 million for the first six months ended 30 June 2007, representing an approximately 19.4% decrease over the same period for 2006; and
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

RESULTS

The board of Directors of the Company (the “Board”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2007, together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended		For the six months ended	
		30 June		30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
TURNOVER	4	44,861	75,376	102,391	95,943
COST OF SALES		(24,170)	(41,696)	(57,309)	(53,492)
GROSS PROFIT		20,691	33,680	45,082	42,451
OTHER REVENUE	4	2,541	670	4,684	1,154
SELLING AND DISTRIBUTION EXPENSES		(3,808)	(4,706)	(8,558)	(7,516)
GENERAL AND ADMINISTRATIVE EXPENSES		(13,249)	(9,667)	(24,992)	(20,539)
OTHER OPERATING EXPENSES	5	(910)	(167)	(1,539)	(265)
PROFIT FROM OPERATIONS		5,265	19,810	14,677	15,285
FINANCE COSTS	6	(476)	(212)	(987)	(402)
PROFIT BEFORE TAX		4,789	19,598	13,690	14,883
TAXATION	7	(79)	180	(1,024)	830
PROFIT FOR THE PERIOD		4,710	19,778	12,666	15,713
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		4,710	19,778	12,666	15,713
DIVIDENDS	8	-	-	-	-
EARNINGS PER SHARE					
- basic (RMB cents)	9(a)	1.49	6.87	4.17	5.46
- diluted (RMB cents)	9(b)	1.43	6.68	4.00	5.28

CONSOLIDATED BALANCE SHEET

		As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	23,730	24,193
Properties under development	11	12,243	2,294
Intangible assets		408	458
Interests in leasehold land held for own use under operating leases		8,844	8,886
Investment in an associate		2,492	2,492
Deferred tax assets		3,564	2,328
		51,281	40,651
CURRENT ASSETS			
Interests in leasehold land held for own use under operating leases		201	201
Inventories		92,194	57,752
Due from directors		330	100
Due from an officer		–	92
Due from related company		604	631
Due from an associate		920	1,000
Prepayments, deposits and other receivables		3,983	3,089
Trade receivables	12	62,364	63,304
Advance to suppliers		3,811	16
Bills receivable		23,500	22,150
Value added tax recoverable		3,258	1,346
Cash and bank balances			
– Restricted		1,500	1,530
– Unrestricted		36,638	21,836
		229,303	173,047
CURRENT LIABILITIES			
Trade payables	13	22,287	23,738
Other payables and accruals		8,804	7,547
Deposits received		2,507	6,272
Due to a related company		11	11
Bills payable, secured		25,500	16,190
Tax payables		2,576	4,151
Short-term borrowings		22,688	18,849
		84,373	76,758

CONSOLIDATED BALANCE SHEET

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
<i>Notes</i>		
NET CURRENT ASSETS	144,930	96,289
TOTAL ASSETS LESS CURRENT LIABILITIES	196,211	136,940
NON-CURRENT LIABILITIES		
Deferred tax liabilities	269	269
	269	269
NET ASSETS	195,942	136,671
CAPITAL AND RESERVES		
Share capital	33,226	25,066
Reserves	162,716	111,605
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	195,942	136,671

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 30 June 2007*

	Reserves										
	Share capital	Share premium	Merger reserve	Exchange fluctuation reserve	Employee share-based payment reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Subtotal	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	24,960	8,678	17,724	(158)	1,502	4,138	4,018	1,678	39,745	77,325	102,285
Employee share-based payment expenses	-	-	-	-	650	-	-	-	-	650	650
Profit for the period	-	-	-	-	-	-	-	-	15,713	15,713	15,713
Transfer from retained profit	-	-	-	-	-	-	-	714	(714)	-	-
At 30 June 2006 (unaudited)	<u>24,960</u>	<u>8,678</u>	<u>17,724</u>	<u>(158)</u>	<u>2,152</u>	<u>4,138</u>	<u>4,018</u>	<u>2,392</u>	<u>54,744</u>	<u>93,688</u>	<u>118,648</u>
At 1 January 2007	25,066	9,068	17,724	(355)	2,604	4,138	7,082	1,839	69,505	111,605	136,671
Issue of share capital	2,430	43,254	-	-	-	-	-	-	43,254	45,684	45,684
Share issue expenses	-	(621)	-	-	-	-	-	-	(621)	(621)	(621)
Issue of bonus share capital	5,347	(5,347)	-	-	-	-	-	-	-	(5,347)	-
Share issued under share option scheme	383	625	-	-	-	-	-	-	-	625	1,008
Transfer to share premium upon exercise of employee share option	-	737	-	-	(737)	-	-	-	-	-	-
Employee share-based payment expenses	-	-	-	-	667	-	-	-	-	667	667
Movement in exchange fluctuation reserve	-	-	-	(133)	-	-	-	-	-	(133)	(133)
Profit for the period	-	-	-	-	-	-	-	-	12,666	12,666	12,666
Transfer from retained profits	-	-	-	-	-	33	-	109	(142)	-	-
At 30 June 2007 (unaudited)	<u>33,226</u>	<u>47,716</u>	<u>17,724</u>	<u>(488)</u>	<u>2,534</u>	<u>4,171</u>	<u>7,082</u>	<u>1,948</u>	<u>82,029</u>	<u>162,716</u>	<u>195,942</u>

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)For the six months
ended 30 June

	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
NET CASH FLOW FROM OPERATING ACTIVITIES	(24,191)	(8,642)
NET CASH FLOW FROM INVESTING ACTIVITIES	(10,806)	(9,424)
NET CASH FLOW FROM FINANCING ACTIVITIES	49,932	4,711
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	14,935	(13,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	21,836	31,193
CHANGE IN FOREIGN EXCHANGE FLUCTUATION RESERVE	(133)	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	36,638	17,838
ANALYSIS OF THE BALANCES CASH AND CASH EQUIVALENTS		
Unrestricted cash and bank balances	36,638	18,777
Bank overdrafts	-	(939)
	36,638	17,838

Notes:

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 unaudited consolidated results for the six months ended 30 June 2007 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

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

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which 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 measurement basis used in the preparation of the financial statements is the historical cost basis. The accounting policies adopted are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2006.

3. SEGMENT INFORMATION

(a) Business segments

For the six months ended 30 June

	Equipment		Expendable parts and accessories		Consultancy services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Turnover	47,054	49,809	50,929	44,614	4,408	1,520	102,391	95,943
Other revenue	1,410	883	1,945	-	32	-	3,387	883
	<u>48,464</u>	<u>50,692</u>	<u>52,874</u>	<u>44,614</u>	<u>4,440</u>	<u>1,520</u>	<u>105,778</u>	<u>96,826</u>
Segment results	6,130	16,088	6,241	(163)	4,402	1,511	16,773	17,436
Unallocated costs							(3,393)	(2,422)
Interest income							288	271
Interest expenses							(987)	(402)
Gain on disposal of investment							1,009	-
Profit before tax							13,690	14,883
Taxation							(1,024)	830
Profit for the period							<u>12,666</u>	<u>15,713</u>

(b) Geographical segments

For the six months ended 30 June

	Turnover		Segment results	
	2007	2006	2007	2006
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000
Mainland China	36,172	58,128	17,900	18,649
USA	53,702	31,612	2,272	(2,107)
Others (Asia, Europe, etc.)	12,517	6,203	(3,399)	894
	<u>102,391</u>	<u>95,943</u>	<u>16,773</u>	<u>17,436</u>
Interest income			288	271
Gain on disposal of investment			1,009	-
Unallocated costs			(3,393)	(2,422)
Profit from operations			<u>14,677</u>	<u>15,285</u>

4. TURNOVER AND OTHER REVENUE

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

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	<i>RMB'000</i>
Turnover		
Sales of equipment	47,054	49,809
Sales of expendable parts and accessories	50,929	44,614
Consultancy service fee income	4,408	1,520
	102,391	95,943
Other revenue		
Interest income	288	271
Gain on disposal of investment	1,009	-
Reversal of impairment losses on bad and doubtful debts	32	-
Other income	3,355	883
	4,684	1,154
Total revenue	107,075	97,097

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

5. OTHER OPERATING EXPENSES

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	<i>RMB'000</i>
Amortisation of intangible assets	50	50
Exchange difference	1,489	211
Loss on disposals of property, plant and equipment	-	4
	1,539	265

6. FINANCE COSTS

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	<i>RMB'000</i>
Interest on bank loans	987	401
Finance charges on obligations under finance leases	—	1
	987	402

7. TAXATION

Taxation in the consolidated income statement represents:

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
	RMB'000	<i>RMB'000</i>
Current tax		
USA income tax	481	(484)
Mainland China enterprise income tax	1,780	567
	2,261	83
Deferred tax		
Origination and reversal of temporary differences	(1,237)	(913)
Tax (credit)/expenses	1,024	(830)

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

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

埃謨(北京)油氣裝備技術有限公司(“埃謨(北京)”) is a wholly foreign owned enterprise established in mainland China and is subject to EIT at a tax rate of 30% and a local tax rate of 3%. 埃謨(北京) was operating at a loss since its establishment on 2 February 2005. 埃謨(北京) was de-registered in September 2006.

No provision of Hong Kong Profits Tax has been made as the Directors consider that the Group had no assessable profit in Hong Kong during the six months period ended 30 June 2007 (2006: Nil).

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share for the three months and six months ended 30 June 2007 are based on the profit attributable to equity shareholders of the Company of approximately RMB4,710,000 and RMB12,666,000 (three months and six months ended 30 June 2006: RMB19,778,000 and RMB15,713,000) and the weighted average number of 316,285,556 and 303,599,580 (2006: 288,000,000 and 288,000,000) ordinary shares in issue during the periods.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended 30 June 2007 are based on the profit attributable to equity shareholders of the Company of approximately RMB4,710,000 and RMB12,666,000 respectively (2006: RMB19,778,000 and RMB15,713,000 respectively) and the weighted average number of 329,439,301 and 316,787,004 (2006: 295,871,447 and 297,639,225) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, additions to fixed assets amounted to approximately RMB1,314,000.

11. PROPERTIES UNDER DEVELOPMENT

During the period, construction expenditure of approximately RMB9,949,000 were added to our properties under development in Xi'an and Qingdao.

12. TRADE RECEIVABLES

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

	30 June 2007 <i>RMB'000</i> (unaudited)	31 December 2006 <i>RMB'000</i> (audited)
0 to 30 days	18,417	29,888
31 to 60 days	9,182	13,843
61 to 90 days	6,427	5,494
91 to 120 days	12,860	411
121 to 365 days	10,925	12,704
1 to 2 years	4,553	964
	<u>62,364</u>	<u>63,304</u>
Represented by:		
Gross amount	65,274	66,246
Less: impairment losses on bad and doubtful debts	(2,910)	(2,942)
	<u>62,364</u>	<u>63,304</u>

13. TRADE PAYABLES

The aging analysis of trade payable is as follows:

	30 June 2007 RMB'000 (unaudited)	31 December 2006 <i>RMB'000</i> (audited)
0 to 30 days	9,112	10,644
31 to 60 days	9,847	6,435
61 to 90 days	2,757	3,665
91 to 120 days	147	1,821
121 to 365 days	399	1,128
1 to 2 years	15	45
Over 2 years	10	–
	<u>22,287</u>	<u>23,738</u>

14. CAPITAL COMMITMENTS

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

	30 June 2007 RMB'000 (unaudited)	31 December 2006 <i>RMB'000</i> (audited)
contracted for	<u>14,846</u>	<u>8,453</u>

15. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the three months ended 30 June 2007, the Group achieved a result of approximately RMB44.9 million in total sales and a net profit of approximately RMB4.7 million. As a result, the Group realized a total revenue of approximately RMB102.4 million for the six months ended 30 June 2007 and a net profit of approximately RMB12.7 million.

FINANCIAL REVIEW

Turnover and Other Revenue

For the three months and six months ended 30 June 2007, the Group recorded a total sales of approximately RMB44.9 million and RMB102.4 million respectively, representing a decrease and an increase of approximately 40.5% and 6.7% over the sales in the same periods for 2006. Other revenue was approximately RMB2.5 million for the three months ended 30 June 2007 and approximately RMB4.7 million for the six months ended 30 June 2007.

COST OF SALES AND GROSS PROFIT MARGIN

The Group's cost of sales for the three and six months ended 30 June 2007 and the same periods in 2006 amounted to approximately RMB24.2 million and RMB57.3 million, RMB41.7 million and RMB53.5 million respectively, resulting in a consolidated gross profit margin of approximately 46.1% and 44%, 44.7% and 44.3% respectively.

OPERATING COSTS AND NET EARNINGS

For the three and six months ended 30 June 2007, the Group's selling and distribution expenses amounted to approximately RMB3.8 million and RMB8.6 million respectively, accounting for approximately 8.5% and 8.4% respectively of the Group's turnover, as compared to approximately 6.2% and 7.8% for the same periods in 2006. The increase of selling and distribution expenses was mainly due to the increased number of sales-related staff, as well as other sales and marketing expenses.

For the three and six months ended 30 June 2007, the Group's general and administrative expenses amounted to approximately RMB13.2 million and RMB25 million respectively, representing approximately 29.5% and 24.4% of the Group's turnover, as compared to those of approximately 12.8% and 21.4% for the same periods in 2006. In comparison with the three months ended 31 March 2007, the general and administrative expenses for the second quarter ended 30 June 2007 were 12.8% higher due to the increase in number of staff in management, product development, rent, depreciation and legal and professional fee.

For the three and six months ended 30 June 2007, the Group's other operating expense amounted to approximately RMB0.9 million and RMB1.5 million respectively while approximately RMB0.1 million and RMB0.3 million occurred for the same periods in 2006 respectively. For the three months ended 30 June 2007, the Group's finance costs amounted to approximately RMB0.5 million, as compared to approximately RMB0.2 million for the same period in 2006.

For the three months and six months ended 30 June 2007, the Group realized a net profit of approximately RMB4.7 million and RMB12.7 million respectively, representing an decrease of 76.2% and 19.4% over the same periods in 2006 respectively.

BUSINESS REVIEW

For the six months ended 30 June 2007, the Group's expendable business grew approximately 14.2% over the same periods in 2006. In response to the demands of customers, the Group expanded the scope of its oil field product supply into drilling pipes, solid control parts and other oil field supplies. The Group successfully started mass shipping of its TSC-branded mud pumps, realizing a sales of approximately RMB14.3 million. The market of drilling rig control system was unsatisfactory in the first six months in 2007, the Group realized a sales of approximately RMB32.8 million in electrical rig control system. The consultancy business realized a sales of approximately RMB4.4 million for the six months ended 30 June 2007.

In the first six months ended 30 June 2007, the Group successfully exhibited its jacking units and jack control systems at OTC. The Group obtained ABS approval of the jacking control system, and successfully secured four orders for jacking control systems. This was another new breakthrough that the Group achieved. In addition, the Group introduced famous financial and industrial investors as the strategic shareholders of the Company.

LIQUIDITY, FINANCIAL RESOURCES AND CHARGE OF ASSETS

As at 30 June 2007, the Group maintained a current assets of approximately RMB229.3 million in which approximately RMB38.1 million was cash and bank balances while current liabilities were approximately RMB84.4 million. As at 30 June 2007, the Group carried a short-term bank borrowings of approximately RMB22.7 million which were secured by the Group's inventory assets in its USA warehouse, leasehold land use right and buildings located in Qingdao and Xi'an as well as machineries located in Qingdao.

GEARING RATIO

As at 30 June 2007, the Group maintained a gearing ratio, based on total liabilities over total assets, of approximately 30.2% (31 December 2006: approximately 36%).

CONTINGENT LIABILITY

As at 30 June 2007, the contingent liability of discounted bills amounted to RMB25.5 million (31 December 2006: RMB16.2 million). Save as disclosed above, the Directors are not aware of any other contingent liability.

SIGNIFICANT INVESTMENTS AND DISPOSAL

On 4 April 2007, the Group divested 40% of equity interest in one subsidiary of the Group for US\$130,000 to an independent third party.

CAPITAL STRUCTURE

On 19 April 2007, the Company completed a placing of 24,300,000 placing shares at the placing price of HK\$1.88 per placing share to one placee being Keywise Greater China Opportunities Master Fund ("Keywise"). Keywise is an independent investment fund registered in the Cayman Islands. Keywise aims to provide its investors with long term superior absolute returns through its investments in securities of the Company that have a substantial portion of their assets in the Greater China Market or that derive a large portion of their revenues or earnings from activity connected to the Greater China Market. Keywise, its directors and its ultimate beneficial owner(s) are not connected persons of the Company and are independent of and not connected with the Company and its connected persons.

On 7 May 2007, the Company completed a bonus issue of 53,468,400 new shares. Save for disclosed above, there was no other change in the capital structure of the Company.

CAPITAL COMMITMENT

Save as disclosed in note 14 of this report on page 13, there is no other capital commitment.

FOREIGN CURRENCY EXCHANGE EXPOSURE AND TREASURY POLICY

Most of the Group's trading transactions, assets and liabilities were denominated in Renminbi, United States dollars and Hong Kong dollars. Since July 2005, magnitude of fluctuation of the exchange rates of Hong Kong dollars and United States dollars to Renminbi have become larger than before, the Directors considered that the impact of the foreign exchange exposure of the Group has some adverse effect on the income of the Group. As at 30 June 2007, 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 30 June 2007, the Group had approximately 350 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. In addition to salaries, employees' benefits included medical scheme, pension contributions and share option schemes.

PROSPECTS AND STRATEGIES

It is generally believed that oil and gas drilling works keep active worldwide, the management of the Group expects that the demand for drilling equipment and expendables shall continue to be strong in the years to come, especially in offshore drilling equipment. The Group's production base in China and international sales and distributors network make the Group in a very competitive position for continuing growth in future. The Group will continue to focus on its core business of serving oil and gas drilling industry worldwide. In addition, the Group will continue to look forward to potential investment opportunities that provide synergy in order to expand the Group's product lines quickly and expand the Group's products into booming offshore drilling equipment sector.

BUSINESS PROGRESS

The following compares the actual business progress of the Group against the business plan from 1 January 2007 to 30 June 2007 as set out in the prospectus of the Company dated 21 November 2005 (the "Prospectus").

Expected business progress

Actual business progress

Development and introduction of new products

- | | |
|--|---|
| 1. Continue the development of 2 more models of the TSC pumps | One large and one small house power mud pumps were under development. |
| 2. Commence the development of air drilling or nitrogen drilling package | The plan was halted for future development. |
| 3. Commence field test for drilling instrumentations and offshore rig control panels | Drilling instrumentations were postponed and offshore rig jacking control design completed and approved by ABS. |
| 4. Commence development of new expendable product lines for the drilling industry | A new type of liner was introduced. |

Expected business progress**Actual business progress***Investment in related business*

- | | |
|---|----------------------------------|
| 1. Identify any acquisition opportunity to expand the Group's sales network | Identification process was made. |
|---|----------------------------------|

Expansion of sales and marketing networks

- | | |
|---|---------------------------------------|
| 1. Recruit 1 person for the Russia office | Completed. |
| 2. Commence sales campaign for promotion of electric control systems in the North American market | Conducted. |
| 3. Participate in major oil shows in the USA and Russia | Participated shows in USA and Russia. |
| 4. Continue the running of advertisement in major industrial magazines and journals | Completed. |

USE OF PROCEEDS

The net proceeds from the listing of the Company of approximately RMB33.47 million (after deducing relevant listing expenses) were fully used up before 1 January 2007.

**Amount of
net proceeds
to be used up from
1 January 2007 to
30 June 2007
as set out in
the Prospectus**
RMB million

- | | |
|---|------|
| 1. Development and introduction of new products | 0.93 |
| 2. Expansion of sales and marketing network | 1.56 |

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

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Name of Directors	Number of issued ordinary shares of HK\$0.10 each in the Company				Total	Number of underlying shares (in respect of share options granted under the Pre-IPO Share Option Scheme) (Note 3)	Approximate percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests			
Mr. Zhang Menggui (Note 1)	432,000	-	136,871,200	-	137,303,200	3,024,000	43.49%
Mr. Jiang Bing Hua (Note 1)	432,000	-	136,871,200	-	137,303,200	3,024,000	43.49%
Mr. Zhang Hongru (Note 2)	7,431,600	-	16,228,800	-	23,660,400	1,814,400	7.90%
Mr. Chen Yunqiang	842,400	-	-	-	842,400	1,965,600	0.87%

Notes:

1. Global Energy Investors, LLC is the beneficial owner of 136,871,200 shares. The entire shares capital of Global Energy Investors, LLC is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both are the executive Directors of the Company. Accordingly, both Mr. Zhang Menggui and Mr. Jiang Bing Hua are deemed to be interested in the 136,871,200 shares beneficially owned by Global Energy Investors, LLC.
2. Mr. Zhang Hongru personally holds 7,431,600 shares and indirectly holds 16,228,800 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.
3. Please refer to the section "Share Option Schemes" below for details of share options held by the Directors and chief executives of the Company.

Save as disclosed above, as at 30 June 2007, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2007, the following persons had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name	Capacity and Nature of interest	Number of shares/underlying shares held	Approximate percentage of the Company's issued share capital
Ms. Chen Fengying (<i>Note 1</i>)	Interest of spouse	137,303,200 shares and 3,024,000 share options	43.49%
Ms. Zhang Jiuli (<i>Note 2</i>)	Interest of spouse	137,303,200 shares and 3,024,000 share options	43.49%
Yantai Raffles Shipyard Limited (<i>Note 3</i>)	Interest in a controlled entity	42,800,000 shares	13.27%
YRS Investments Limited (<i>Note 3</i>)	Corporate	42,800,000 shares	13.27%
Asian Infrastructure Limited (<i>Note 3</i>)	Corporate	16,072,800 shares	4.98%
Mr. Brian Chang (<i>Note 3</i>)	Interest in a controlled entity	58,872,800 shares	18.25%
Keywise Capital Management (HK) Limited (<i>Note 4</i>)	Interest in a controlled entity	29,160,000 shares	9.04%
Keywise Greater China Opportunities Master Fund (<i>Note 4</i>)	Corporate	29,160,000 shares	9.04%
Ms. Gao Haiping (<i>Note 5</i>)	Interest of spouse	23,660,400 shares and 1,814,400 share options	7.90%
Osbeck Investments Limited (<i>Note 6</i>)	Corporate	16,228,800 shares	5.03%

Notes:

1. *These interests represent the same block of shares held by Mr. Zhang Menggui in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Zhang Menggui in the below section headed "SHARE OPTION SCHEMES". Since Ms. Chen Fengying is the spouse of Mr. Zhang Menggui, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.*
2. *These interests represent the same block of shares held by Mr. Jiang Bing Hua in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Jiang Bing Hua in the below section headed "SHARE OPTION SCHEMES". Since Ms. Zhang Jiuli is the spouse of Mr. Jiang Bing Hua, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.*
3. *YRS Investments Limited ("YRSI") is owned as to 100% by Yantai Raffles Shipyard Limited ("YRS"), a company incorporated in Singapore and the shares of which are traded on the Oslo Over-the-Counter Market. Accordingly, YRS is deemed to be interested in 42,800,000 Shares held by YRSI. YRS is owned as to approximately 49% by Mr. Brian Chang and his associates. Mr. Brian Chang is deemed to be interested in 42,800,000 Shares held by YRSI as he holds more than one-third interest of the issued share capital of YRSI. Mr. Brian Chang is deemed to be interested in 16,072,800 Shares held through his wholly-owned subsidiary, Asian Infrastructure Limited.*
4. *Keywise Greater China Opportunities Master Fund is an independent investment fund registered in the Cayman Islands and is owned as to 100% by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong. Accordingly, both are deemed to be interested in the 29,160,000 shares under Part XV of the SFO.*
5. *These interests represent the same block of shares held by Mr. Zhang Hongru in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and share options held by Mr. Zhang Hongru in the below section headed "SHARE OPTION SCHEMES". Since Ms. Gao Haiping is the spouse of Mr. Zhang Hongru, she is deemed to be interested in the shares and share options held by him under Part XV of the SFO.*
6. *These shares represent the same block of shares held by Mr. Zhang Hongru in the previous section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES". Since Osbeck Investments Limited is wholly owned by Mr. Zhang Hongru, he is deemed to be interested in the shares held by Osbeck Investments Limited under Part XV of the SFO.*

Save as disclosed above, as at 30 June 2007, 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 and section headed “SHARE OPTION SCHEMES” below), 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.

SHARE OPTION SCHEMES

On 1 February 2005, Oxford Asia Investments Limited (“Oxford”), a wholly-owned subsidiary of the Company, adopted a share option scheme pursuant to which 1,690 share options were granted to certain employees of the Group. On 19 October 2005, the Company adopted a share option scheme (“Pre-IPO Share Option Scheme”) to replace the share option scheme of Oxford which was cancelled on the same date. The total number of shares in the Company that are subject to the Pre-IPO Share Option Scheme is 15,210,000 shares at HK\$0.286 each, and all the options under the Pre-IPO Share Option Scheme were granted to the option holders of the Oxford’s option scheme in the same proportion with their original holding. No further options will be granted under the Pre-IPO Share Option Scheme after 28 November 2005. Details of the Pre-IPO Share Option Scheme are summarised in the paragraph headed “Summary of terms of the Pre-IPO Share Option Scheme” in Appendix 5 to the prospectus of the Company dated 21 November 2005.

On 26 March 2007, the directors of the Company announced in its annual results for the year ended 31 December 2006 of a bonus issue of shares (the “Bonus Issue”) 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 above adjustments to the subscription price and the number of shares subject to the Pre-IPO Share Option became effective on the day of the Bonus Issue becoming unconditional on 10 May 2007.

Details of the adjusted outstanding options which have been granted and remaining unexercised under the Pre-IPO Scheme as at 30 June 2007 are as follows:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share HK\$	Number of share options				
				Outstanding as at 31.3.2007	Exercised during the period (Notes 4 & 5)	Cancelled during the period (Note 5)	Lapsed during the period (Note 5)	Outstanding as at 30.6.2007
Directors:								
Mr. Zhang Menggui	19.10.2005	29.11.2005 to 28.11.2015	0.2383	3,456,000	432,000	-	-	3,024,000
Mr. Jiang Bing Hua	19.10.2005	29.11.2005 to 28.11.2015	0.2383	3,456,000	432,000	-	-	3,024,000
Mr. Chen Yunqiang	19.10.2005	29.11.2005 to 28.11.2015	0.2383	2,246,400	280,800	-	-	1,965,600
Mr. Zhang Hongru	19.10.2005	29.11.2005 to 28.11.2015	0.2383	2,073,600	259,200	-	-	1,814,400
				<u>11,232,000</u>	<u>1,404,000</u>	<u>-</u>	<u>-</u>	<u>9,828,000</u>
Employees	19.10.2005	29.11.2005 to 28.11.2015	0.2383	3,369,600	421,200	-	-	2,948,400
Total				<u>14,601,600</u>	<u>1,825,200</u>	<u>-</u>	<u>-</u>	<u>12,776,400</u>

Notes:

- All dates are shown day, month, year.*
- The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options granted subject to any adjustment due to the bonus issue, for a period of 5 years from the date of grant.*
- 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 subject to any adjustment due to the bonus issue, for a period not later than 10 years from the date of grant.*
- 1,825,200 share options were exercised at an exercise price of HK\$0.2383 per share and the weighted average closing price immediately before the dates of exercise of options was HK\$2.94.*
- The period refers to the three months ended 30 June 2007.*

Pursuant to the share option scheme adopted by the Company on 20 October 2005 ("Share Option Scheme"), the board of directors granted 7,280,000 share options at HK\$2.43 each to 14 employees of the Group during the six months ended 30 June 2007. Since the exercise price per share of the options granted during the period and the closing price per share were the same on the date of grant of such share options, the Company was unable to measure the value of such share options on the date which they were granted.

Details of share options under the Share Option Scheme as at 30 June 2007:

Name or category of participant	Date of grant (Notes 1 & 2)	Exercisable period (Notes 1, 2 & 3)	Exercise price per share (HK\$)	Number of share options					Outstanding as at 30.6.2007
				Outstanding as at 31.3.2007	Granted during the period (Note 4)	Exercised during the period (Note 4)	Cancelled during the period (Note 4)	Lapsed during the period (Note 4)	
Employees	10.05.2007	10.11.2007 to 9.11.2017	2.43	-	7,280,000	-	-	-	7,280,000
Total				-	7,280,000	-	-	-	7,280,000

Notes:

1. All dates are shown day, month, year.
2. The vesting period of the options is 5 years and starts from the date of grant and become vested at stepped semi-annual increments of 10% of the total options granted for a period of 5 years from the date of grant.
3. These grants are exercisable, starting from the first anniversary of the listing date at stepped semi-annual increments of 10% of the total options granted, for a period not later than 10 years from the date of grant.
4. The period refers to the three months ended 30 June 2007.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the six months period ended 30 June 2007.

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 30 June 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company’s corporate governance practices and it has satisfied that the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules for the six-months period ended 30 June 2007.

At the Board meeting of the Company held on 8 June 2007, the Company had approved the separation of the posts of chairman and chief executive officer of the Company. An executive Director, Mr. Jiang Bing Hua is acting as executive chairman of the Company whereas Mr. Zhang Menggui, another executive Director, is acting as president and chief executive officer of the Company.

AUDIT COMMITTEE

The Company established an audit committee on 20 October 2005 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group.

The audit committee comprises three members, namely Mr. Chan Ngai Sang, Kenny (being the chairman of the audit committee), Mr. Bian Junjiang and Mr. Guan Zhichuan. All of them are independent non-executive Directors. The audit committee of the Company has reviewed the unaudited results of the Group for the six months ended 30 June 2007 and are of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director had a direct and indirect material interest, subsisted during or at the end of the six months ended 30 June 2007.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30 June 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

SUBSEQUENT EVENT

- Pursuant to the Placing Agreement dated on 19 July 2007, as amended by the Supplemental Placing Agreements dated 20 July 2007 and 25 July 2007 respectively, entered into between Global Energy Investors, LLC (“Global Energy”), which is beneficially owned as to 50% each by Mr. Zhang Menggui and Mr. Jiang Bing Hua, both of whom are Directors of the Company, the Company and SBI E2-Capital Securities Limited, Goldbond Securities Limited and Quam Securities Limited (“Placing Agents”), the Placing Agents have agreed to place 53,468,000 existing Shares at a price of HK\$5.80 per Share on behalf of the Global Energy.

The Placing was completed on 30 July 2007 where a total of 53,468,000 Placing Shares beneficially owned by Global Energy were placed out to not less than six independent placees who are independent of each other, not connected with and not acting in concert with Global Energy, Directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates or concert parties at HK\$5.80 per Placing Share. The Subscription was completed on 31 July 2007 where 53,468,000 Subscription Shares were subscribed by Global Energy at HK\$5.80 per Subscription Share.

The net proceeds raised from the subscription for the Company were approximately HK\$300 million.

- On 8 July 2007, the Company and Yearport International Limited (“Yearport”) entered into the sale and purchase agreement, pursuant to which the Company has conditionally agreed to purchase and Yearport has conditionally agreed to sell the entered issued share capital of Top Sino Industrial Limited (“Top Sino”) and assign the shareholder’s loan to the Company for a total consideration of HK\$34,908,000. The consideration will be satisfied as to HK\$1,808,000 in cash and HK\$33,100,000 by way of the allotment and issue of 10,000,000 consideration shares by the Company to Yearport.

Top Sino has not carried on any business or operation save for the holding of its wholly-owned subsidiary, Zhengzhou Highlight Energy Technology Co., Ltd. (“Zhengzhou Highlight”). Zhengzhou Highlight is principally engaged in the manufacture and sale of machinery and equipment for oil and mining industries.

The issue of the consideration shares is subject to shareholders’ approval at the extraordinary general meeting (“EGM”) to be held on 27 August 2007.

- On 13 July 2007, the subsidiaries of the Company entered into six conditional sales agreements (“Supply Agreements”) with Yantai Raffles Shipyard Limited (“YRS”).

These agreements are related to the sales of three sets of cantilever and drilling turnkey equipment packages to YRS. The contract value for the equipment is approximately RMB828 million in aggregate.

YRS through its wholly-owned subsidiary, YRS Investments Limited (“YRSI”), owns 42,800,000 shares of the Company. Therefore, YRS is a connected person of the Company and the Supply Agreements constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules. The Supply Agreements are subject to approval by the independent shareholders of the Company by poll at the EGM.

By Order of the Board
EMER International Group Limited
Jiang Bing Hua
Executive Chairman

Hong Kong, 9 August 2007

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