The following discussion and analysis of the Group's financial condition and results of operation should be read in conjunction with the consolidated financial statements and the accompanying notes.

Revenue

For the current year, sales of the Group's oil well pipes, casing, oil well pumps and other products increased significantly as a result of substantial increase of market demand in petroleum drilling and the extraction machinery industry and increased production capacity of the Group. There was also a substantial growth of revenue from overseas market. The Group's revenue was approximately RMB776.5 million for the year ended 31 December 2005 and surged to approximately RMB1,014.0 million for the current year, representing an increase of approximately 30.6%, while sales of casing has increased by four times when compared with previous year. Revenue from overseas market was increased by 83.5% to RMB179.9 million.

For the two years ended 31 December 2006, the Group's revenue breakdown by products are as follows:

	2006		2005		**Percentage of increase**
	RMB'000	**%**	RMB'000	%	%
Oil well pipes	**584,618**	**57.6**	500,198	64.4	16.9
Oil well sucker rods	**100,316**	**9.9**	80,652	10.4	24.4
Oil well pumps	**23,008**	**2.3**	7,758	1.0	196.6
Casing	**137,825**	**13.6**	27,337	3.5	404.2
Oil well pumping machines	**12,056**	**1.2**	9,287	1.2	29.8
Other petroleum drilling and extraction machinery and accessories	**156,214**	**15.4**	151,290	19.5	3.3
Total	**1,014,037**	**100**	776,522	100	30.6

For the two years ended 31 December 2006, the Group's revenue breakdown by countries are as follows:

	2006		2005		**Percentage of increase**
	RMB'000	**%**	RMB'000	%	%
China	**618,613**	**61.0**	560,992	72.2	10.3
USA	**163,547**	**16.1**	101,284	13.0	61.5
Europe	**118,288**	**11.7**	69,497	9.0	70.2
Others	**113,589**	**11.2**	44,749	5.8	153.8
Total	**1,014,037**	**100**	776,522	100	30.6

Gross Profit

The Group's gross profit increased from approximately RMB180.4 million for the year ended 31 December 2005 to approximately RMB235.5 million for the current year, representing an increase of approximately 30.5%. The substantial growth was mainly due to the increase in the Group's revenue.

Consolidated Gross Profit Margin

The consolidated gross profit margin of the Group is approximately 23.2% in the current year, which is similar to 2005 over the same period.

Net Profit from Ordinary Activities Attributable to Equity Holders of the Parent

The Group's net profit from ordinary activities attributable to equity holders of the parent increased from approximately RMB85.2 million for the year ended 31 December 2005 to approximately RMB139.4 million for the current year, representing an increase of approximately 63.6%. The substantial increase was mainly due to the rapid increase in the Group's revenue.

Cost of Sales

The Group's cost of sales increased from approximately RMB596.1 million for the year ended 31 December 2005 to approximately RMB778.5 million for the current year, representing an increase of approximately 30.6%. The significant increase in cost of sales was mainly attributable to the growth of the Group's revenue.

Distribution Cost

The distribution cost rose from RMB24.9 million for the year ended 31 December 2005 to RMB28.3 million for the year ended 31 December 2006. The increase of distribution cost is mainly due to the increase of the Group's transportation costs by approximately RMB3.0 million in the current year. Distribution cost was approximately 3.2% of the Group's total revenue in 2005 and decreased to approximately 2.8% in 2006.

Administrative Expenses

The Group's administrative expenses increased from approximately RMB33.2 million for the year ended 31 December 2005 to approximately RMB33.8 million for the current year, representing an increase of approximately 1.8%. Administrative cost has decreased from 4.3% of the Group's revenue fro the year ended 31 December 2005 to approximately 3.3% of the Group's revenue for the year ended 31 December 2006, which represents a decrease of 1%.

Finance Cost

The finance cost of the Group for the current year was approximately RMB12.1 million, representing approximately 1.2% of the Group's total revenue representing an increase of RMB8.6 million when compared to the finance cost of the Group for the year ended 31 December 2005 over the same period. The increase in finance costs was principally due to the increase of loan for business expansion.

Research and Development Cost

The research and development cost of the Group for the current year was approximately RMB11.7 million, representing approximately 1.2% of the Group's total revenue and an increase of approximately RMB5.9 million when compared to the Research and Development Cost for the year ended 31 December 2005. The rise was mainly due to the Group's increasing efforts in the research and development of new products, such as high-pressure and corrosion resistant steel as well as oil pipes.

Liquidity and Financial Resources

As at 31 December 2006, the total current assets of the Group amounted to RMB912.4 million (2005: RMB599.2 million) which comprises: (1) cash and bank balances for the total amount of RMB34.1 million (2005: RMB110.2 million) and pledged time deposit to RMB219.3 million (2005: RMB147.6 million). The Company was mainly using the Bank Acceptance Bill and pledged approximately 30% to 50% fixed deposits, which not only reduced the rate of bank loan, but also obtained interest from fixed deposit as a result of increasing earning of the Company. (2) Trade receivable and notes receivable amounted to RMB173.7 million (2005: RMB90.9 million). The increase was mainly attributable to increased market demand for oil drilling and extraction machinery and related accessories, which further boosted sales of products. (3) Inventories amounted to RMB477.6 million (2005: RMB213.9 million) and down payment, deposits and other receivables amounted to RMB37.8 million (2005: RMB14.7 million). The increase was mainly attributable to the improvement of production capacity and increase of sales volume which made it essential to keep inventories and deposit for purchase of raw material.

As at 31 December 2006, the total current liability of the Group amounted to RMB847.5 million (2005: RMB544.1 million) which comprises: (1) trade bills payables RMB611.7 million (2005: RMB421.2 million). The increase was mainly attributable to the improvement of production and sales and therefore the increase of purchase of material, which brought the increase of periodic trade payable; (2) bank loan amounted to RMB135.0 million (2005: RMB50.0 million), this is due to the increased short-term bank loans for the expansion of the scale of the Company. According to the planned arrangement of the present current asset condition and future cash flow, the Company anticipates that it will have sufficient repayment ability to support the Group's operation.

Banking Facilities

For the current year, the Group had interest-bearing bank credit loans amounting to RMB205.0 million (2005: RMB50.0 million). In addition, eight banks, including the Agricultural Bank of China has granted credit facilities to the Group amounting to RMB352.0 million (2005: RMB363.0 million) that have not been utilised.

Cash Flow

As at 31 December 2006, the cash and cash equivalents of the Company decreased by RMB150.5 million as compared with that of the year ended 31 December 2005 (2005: an increase by RMB128.2 million). The net cash flow from operations of the year amounted to RMB61.8 million (2005: RMB303.9 million). The obvious increase of project funds such as inventory and trade receivables was mainly due to the 250,000-tonne casing production line launch and sales raising. Other cash flow item includes pledged time deposit adding RMB146.1 million, capital disburse such as purchase of fixed assets RMB205.4 million, payment for 2005 dividend RMB20.6 million, newly added bank loan RMB155.0 million.

Capital Structure

As at 31 December 2006, the liability ratio of the Company was 170.9% (2005: 131.1%). The increase was mainly attributable to the increase in bills payable, bank loans and reserves over those of last year, all these reflected the favorable conditions of market demand of the Company; the improvement of the Company's operation management and the emphasis on financial management by way of using bills payable in the purchase of raw materials in the operation to enhance the returns on assets, which led to better control on the increase of bank loans. At present, the Company has strong debt repayment ability and has a better fund raising ability in the future.

Gearing Ratio

The Group's gearing ratio was approximately 63.1% (2005: approximately 56.7%) which is calculated based on the Group's total liabilities of approximately RMB917.5 million (2005: approximately RMB544.1 million) and total assets of approximately RMB1,454.2 million (2005: approximately RMB959.1 million).

Pledge of Assets

For the current year, no assets of the Group and the Company were pledged (2005: Nil).

Contingent Liabilities

For the current year, the Group did not have any contingent liabilities (2005: Nil).

Foreign Exchange Exposure

For the current year, approximately 39.0% of the Group's operating revenue is denominated in US dollars and the rest are denominated in RMB. The major cost of sales and capital expenditure of the Group are mainly denominated in RMB. The Directors consider that the official exchange rate between US dollars and RMB may have certain fluctuation in the current year, but it had not caused substantial exchange rate risk to the Group. The Group did not use any financial instruments for hedging purposes.

Segment Information

An analysis of the Group's revenue and segment results by geographical segments for the current year is set out in note 4 to the financial statements.

Capital Commitment

For the current year, the Group had capital commitments of approximately RMB52.4 million (2005: approximately RMB146.3 million) in respect of fixed assets.

Employees

For the year ended 31 December 2006, the Group had a total of 1,987 employees (31 December 2005: 1,665). Staff costs including Directors' remuneration were approximately RMB36.7 million (2005: RMB29.4 million). The Group's employment and remuneration policies remain unchanged from those described in the Prospectus. The salaries and benefits of employees of the Group are kept at competitive levels. Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits are also provided to the employees by the Group.

For the year ended 31 December 2006, the breakdown of the number of employees of the Group is set out as below:

	As at 31 December	
	2006	2005
Research and development	**57**	56
Production	**1,609**	1,290
Quality control	**95**	93
Sales and marketing	**58**	58
Administration	**168**	168
Total	**1,987**	1,665

The Group keeps a close watch on the level of employees' remuneration and benefits, and rewards staff according to the results of the Group's operating achievement. Furthermore, the Group also offers training and development opportunities to employees.

Significant Investments

In the year ended 31 December 2006, the Group did not hold any significant investments.

Acquisitions and Disposals during the Year and Future Investment Plans

In the year ended 31 December 2006, the Group did not have any acquisitions and disposals, and significant investment plan.

To provide casting parts for our petroleum machinery products for cost reduction of purchases and optimization of our ancillary facilities, the Company intends to establish a joint venture Company by way of joint venture formed by the Company, MPM International Limited ("MPM"), a subsidiary of the Company, and Weifang Shengcheng Investment and Management Company Limited in 2007. The proposed business scope covers the production and sale of petroleum pipe billets and couplings of petroleum drilling and extraction machinery accessories.