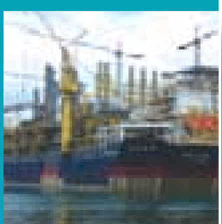
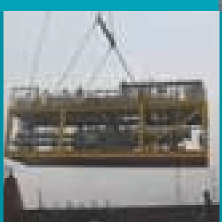
Management Discussion and Analysis





Taking initiatives and grow along with time

1. REVIEW OF RESULTS

Turnover

In 2006, the Group recorded a turnover of RMB297,190,000, an increase of RMB49,303,000 or approximately 19.89% comparing to the year of 2005. Increase in turnover was mainly due to the growth in the fabrication of oil and natural gas processing equipment, which was increased by RMB43,290,000, or approximately 42.39% from RMB102,120,000 of 2005 to RMB145,410,000 of 2006. Improvement in design, project management and overall operation capabilities contributed to the fast growth in turnover, customers recognition and market development. Pursuant to a strategic agreement entered into by the Group and Dalian Shipbuilding Industry Co., Ltd. ("DSIC") in 2005, the Group started having closer cooperation in various businesses with DSIC. The Group was entitled, by a writing agreement, to be subcontracted all special coating project on ships. The Group enabled to further expend electrical and instrument installation and commissioning business in shipbuilding industry. Therefore, significant growth was realized in 2006 in the business of technical support services to the shipbuilding industry by the Group. Its turnover increased from RMB29,150,000 of 2005 to RMB46,420,000 of 2006, approximately 59.25%. Turnover of the Group in civil engineering business increased from RMB27,210,000 of 2005 to RMB44,560,000 of 2006, an increase of RMB17,350,000, or approximately 63.76%. As result of decreasing demand for overhaul of the oil platforms of our oil company customers during the year, the turnover of the Group in oil and natural gas supporting services decreased from RMB89,410,000 in 2005 to RMB60,810,000 in 2006, a decrease of RMB28,600,000, or approximately 31.99%. With the recovery of the market in 2007 and the enhanced management of the Group, it is anticipated that the Group will be able to realize a better performance in this business sector in 2007. The Group was awarded a contract from CACT oil field for the HZ19-2/25-4 platform in grading and reconstructing project in the beginning of 2007, the contract value of which is expected to be approximately RMB15 million. The Group has been undertaking a LNG onshore pipe laying service of CNOOC Engineering in Fujian at the end of 2006 with contract value of approximately RMB13 million, which further expanded its business scope in offshore oil technical support services.

The following shows the breakdown of turnover either by product or by service during the past three years:

	For the financial year ended 31 December					
Product/service	**2006**		2005		2004	
	RMB'000	**%**	RMB'000	%	RMB'000	%
1. Provision of technical supporting services for Oil and natural gas industry	**60,803**	**20**	89,414	36	103,353	56
2. Fabrication of Oil and natural gas processing skid equipment	**145,407**	**49**	102,116	41	18,576	10
3. Provision of technical support services for shipbuilding industry	**46,417**	**16**	29,149	12	25,167	14
4. Civil engineering business	**44,563**	**15**	27,208	11	37,766	20
Total	**297,190**	**100**	247,887	100	184,862	100

Cost of sale

The Group's cost of sales and service for 2006 amounted to RMB224,710,000, an increase of 23.55% over 2005. Cost of sales and service comprised direct and overhead cost. The Group calculates cost of sales on an order-by-order basis of projects, and cost elements of each project differs from one another, therefore the cost of sales and service varies from project to project. The direct cost for 2006 amounted to RMB198,020,000, accounted for 88.13% of the cost of sales and service and an increase of 22.75% over 2005. Direct cost consists of cost of materials, subcontracting charges and labors costs. The cost of these three elements in 2006 were RMB103,270,000, RMB48,530,000 and RMB24,060,000, which accounted for 52.15%, 24.51% and 12.15% of the direct cost respectively, an increase of 3.89%, 69.85% and 24.16% respectively over last year. Subcontracting cost increased significant mainly because of the overcapacity of the Group's oil and gas skidded equipment manufacturing business, subcontracting cost regards to this segment increased by RMB14,371,000 from 2005. The overhead cost in 2006 amounted to RMB26,690,000, an increase of 29.76% over the previous year, which was mainly due to the increase in the number of employees and the level of salary, which was increased by RMB4,770,000.

Gross profit

The Group's gross profit in 2006 increased by 9.82% over 2005 to RMB72,480,000, and the gross profit margin slightly decreased from 26.63% in 2005 to 24.39% in 2006.

The following shows the breakdown of gross profit by business segments during the past three years:

For the financial year ended 31 December

Product/service	**2006**			2005			2004		
	RMB'000	**Gross profit %**	**Percentage to total gross profit**	RMB'000	Gross profit %	Percentage to total gross profit	RMB'000	Gross profit %	Percentage to total gross profit
1. Provision of technical supporting services for Oil and natural gas industry	**15,636**	**26**	**22**	36,381	41	55	34,174	33	72
2. Fabrication of Oil and natural gas processing skid equipment	**27,137**	**19**	**37**	17,607	17	26	5,444	29	11
3. Provision of technical support services for shipbuilding industry	**18,882**	**41**	**26**	7,651	26	12	7,599	30	16
4. Civil engineering Business	**10,827**	**24**	**15**	4,363	16	7	468	1	1
Total	**72,482**		**100**	66,002		100	47,685		100

Other income

Other income amounted to RMB5,066,000, increased by 429% from 2005, which was mainly due to the interest income of RMB4,149,000 and reversal of impairment losses on receivables from prior years of RMB851,000.

Administrative expenses

Administrative expenses mainly comprised listing expenses, wages, entertainment expenses, accommodation and traveling expenses, leasing expenses and auditors' remuneration. The expenses increased to RMB29,000,000 by RMB7,310,000, 33.71% increase over 2005. Increase in administrative expenses in 2006 mainly comprised increase in listing expenses of RMB5,480,000, auditors' remuneration of RMB690,000, wages of RMB760,000, which represented increases of 346.84%, 248.18% and 8.28% respectively over the previous year.

Finance cost

Finance cost increased from 2005 by 15.06% to RMB1,620,000. It was mainly due to foreign exchange losses of RMB1,304,000, bank charges of RMB268,000 and finance leases charges of RMB48,000. Exchange losses was mainly due to the appreciation of the functional currency of the major subsidiaries, Renminbi, against US dollars over the year.

Net profit

In Summary, the Group's net profit in 2006 amounted to RMB42,662,000, an increase by 7.81% over 2005. Earnings per share was RMB0.13. The Group accounted for the listing expenses of approximately RMB7,060,000 and RMB1,580,000 as administrative expenses respectively in 2006 and 2005. Based on the average net assets at the beginning and the end of the year, the Group's net assets yield was 25.47%.

2. LIQUIDITY AND FINANCIAL RESOURCES

As at the end of 2006, the Group's balance of fund amounted to approximately RMB214,052,000, an increase of RMB175,091,000 over 2005. The increase mainly came from the net proceeds of approximately RMB153,628,000 raised from the share offer and placing during the reporting year and the net cash flows generated from the operations of the Group.

In 2006, the Group obtained an aggregate of banking facility of RMB33,470,000, and approximately RMB9,003,000 had been utilized by the end of 2006 with approximately RMB24,467,000 unused. The facility may be used as loans for liquidity, issuing performance bond, quality warranty and letter of credit for the purchase of materials.

3. CAPITAL STRUCTURE

For the year ended 31 December 2006, the Company's share capital comprised of ordinary shares.

As at 31 December 2006, the Group's net assets amounted to approximately RMB264,645,000 (2005: RMB70,409,000), including non-current assets of approximately RMB31,620,000 (2005: RMB30,509,000), current assets of approximately RMB235,274,000 (2005: RMB41,448,000) and non-current liabilities of approximately RMB2,249,000 (2005: RMB1,548,000)

4. MATERIAL ACQUISITIONS AND DISPOSALS

The Group intends to identify companies along the industry chain which are similar or complementary to the business of the Group as targets of acquisition in order to increase its competitiveness. As such, the Group established a new business department and recruited professionals from the offshore oil industry of the PRC to head the department. At present, the research and inspection are underway.

5. MATERIAL INVESTMENT

As at 31 December 2006, the Group had no material investment.

6. FUTURE PLANS FOR SIGNIFICANT INVESTMENT

In accordance with our development plan, the Group will build a new fabrication yard in Zhuhai and purchase manufacturing equipments in 2007 so as to expand the production capacity of oil and natural gas processing equipment. It is anticipated that the investment cost will be approximately RMB43 million, of which RMB37 million will be paid in 2007.

Also, the Group anticipates that the expenditure on equipment purchase will be approximately RMB14 million, and the Group intends to acquire existing professional companies with RMB33 million to expand its industry chain and enhance its service capability.

7. USE OF PROCEEDS FROM THE SHARE OFFER

The Group raised a total of HK$158,700,000 from public offer and placing of 115,000,000 shares, which at the prevailing market rate of exchange was equivalent to RMB161,490,000; the expenses incurred in the offering and placing amounted to approximately RMB7,860,000, and the net proceeds raised amounted to approximately RMB153,630,000.

According to the use of proceeds as disclosed in the prospectus, the Group has applied part of the proceeds for the purchase of production and service facilities, the recruiting of employees and sales and marketing staff and for the addition of necessary equipment and software. The Group has decided that a new yard for fabrication of oil and gas processing skid equipment will be built to expand production capacity in this aspect. At present, we have completed the design and put on tender for the construction of its foundation. At the beginning of 2007, the Group has also established a new business department designated for pursuing opportunities of acquisition and merger.

For the proceeds raised and not yet use, the Group has placed it in banks as deposits for the time being, which will be used to fund business as required as stated in the prospectus.

8. RISK OF FOREIGN EXCHANGE

As the Group's principal business is located in the PRC, over 60% of the Group's settlement is in Renminbi. Given the trend of appreciation of Renminbi against the US dollars, risks in changes in foreign exchange rate may come from following areas:

Asset: as at 31 December 2006, assets of approximately RMB160,000,000 was denominated in Hong Kong dollars or US dollars, which exposed the Group to the decrease in purchase power as a result of the appreciation of Renminbi. The Group has considered to make reasonable arrangements for assets denominated in foreign currencies.

Operations: since certain business contracts of the Group are denominated in US dollars or Renminbi, and costs incurred are mostly denominated in Renminbi, therefore changes in the rate of foreign exchange may bring about risk of loss to the Group. However, the Group considers that the risk is insignificant because the Group obtain orders from its customers mostly by tender, and before the orders are issued, the Group will determine the price with reference to the change in the rate of foreign exchange.

9. ASSETS PLEDGED BY THE GROUP

As at 31 December 2006, other than the bank deposit of RMB1,550,000 pledged as the security for the performance bonds, there are no other pledged assets.

10. CONTINGENT LIABILITIES

As at 31 December 2006, the Group has no material contingent liabilities.

11. EMPLOYEES INFORMATION AND REMUNERATION POLICY

As at 31 December 2006, the total number of employees of the Group is 1,352, of which 261 were management and technical staff, and 1,091 were technicians.

The Group determines the remuneration and incentive of its staff based on position, with reference to industrial standards, responsibilities and performance. The Group maintains social security insurance such as pension, medical, unemployment and personal injury insurance for its workers in the PRC, and contributes the mandatory provident fund for its employees pursuant to the requirements.

The Group places emphasis on staff development and encourages the continued learning of staff. The Group works out an annual training programme for its staff.