

The Board of Directors is pleased to present the annual report and the audited financial statements for the current year.

Principal Activities

The Group is principally engaged in the design, manufacture and sale of oil well pumping machines, oil well sucker rods, oil well pumps, oil well pipes, casing and other petroleum drilling and extraction machinery accessories.

Results

The Group's profit for the current year and the state of financial affairs of the Group and the Company at that date are set out in the financial statements on pages 39 to 80 of the annual report.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 5 of the annual report.

Dividends

The Board has resolved to recommend a final dividend of RMB0.02 per share (inclusive of tax) for the current year. The proposal to declare and pay this final dividend will be submitted to the annual general meeting to be held on 25 May 2007 ("AGM"). Final dividend for domestic shares of the Company will be declared and paid in RMB whereas dividend for H shares of the Group will be declared in RMB and paid in Hong Kong dollars on or about 25 July 2007. The H share register of the Company will be closed from 25 April 2007 to 25 May 2007 (both days inclusive) during which no transfer of H shares of the Company will be registered.

There was no arrangement under which the Shareholders waived or agreed to waive any dividends during 2006.

Bonus Issue of Shares

The Board proposes to issue new shares to the shareholders of the Company on the basis of four new shares for each existing share held by them as at a specific date to be decided (the "Bonus Issue") by converting RMB129,599,600 in the capital reserve fund and by capitalizing RMB129,599,600 of distributable retained profits. The amount standing in the capital reserve fund account of the Company as at 31 December 2006 was approximately RMB175,653,000 and the remaining balance in the capital reserve fund account after the above proposed conversion will be approximately RMB46,053,400.

The completion of the Bonus Issue is subject to the following conditions:

- (i) the approval by a special resolution of the shareholders of the Company at the AGM and the approvals by special resolutions of holders of domestic shares and H shares at separate class meetings conducted in accordance with the articles of association of the Company;
- (ii) the approval of the Bonus Issue by the relevant governmental authorities of the People's Republic of China; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new H shares.

Based on the number of issued shares of the Company, being 647,998,000 shares (including 401,722,000 domestic shares and 246,276,000 H shares) of RMB0.10 each, upon completion of the Bonus Issue, an additional 2,591,992,000 new shares (including 1,606,888,000 new domestic shares and 985,104,000 new H shares) of RMB0.10 each shall be issued. In relation to the calculation of the number of new shares to be issued, shareholders are hereby informed that the issue price of each new share shall be the nominal value of RMB0.10 each.

It is uncertain as to how prompt the approval of the Bonus Issue by the relevant government authorities of the People's Republic of China would be. Investors should exercise caution in their dealings in the securities of the Company.

Share Capital

The change(s) in share capital of the Company for 2006 is set out in note 28 to the financial statements.

Reserves and Distributable Reserves

Details of movements in the reserves of the Group and of the Company for 2006 are set out in note 29 to the financial statements.

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. At the end of 2006, the Company's distributable profit was RMB188,647,000 (2005: RMB113,081,000).

Property, Plant and Equipment, and Investment Properties

Details of movements in the property, plant and equipment and investment properties of the Group for 2006 are set out in notes 14 and 15 to the financial statements.

Capitalised Interest

For 2006, the Group did not have any capitalised interest.

Directors and Supervisors

The list of Directors and Supervisors during 2006 and up to the date of this report is set out in page 2 in this report.

Directors' and Supervisors' Service Contracts or Letters of Appointment

Each of the Directors and Supervisors (including the independent non-executive Directors and the Supervisors) has entered into a service contract or letter of appointment with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract or letter of appointment with the Group which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Re-election of the Board

With its zealous devotion work for approximately 3 years since the listing of the H shares of the Company on the GEM on 15 April 2004, the First Board of the Company accomplished its obligations and successfully arranged the listing of the H shares of the Company on the Main Board. According to "Company Law" of the PRC and the relevant requirements of the articles of association of the Company ("**Articles of Association**"), Nomination Committee will propose the "Resolution of Re-election of the Board" in the 22nd board meeting of the First Board on 29 March 2007, the details of which are as follows:

1. To propose the convention of the 2006 AGM on 25 May 2007 and the discussion on the resolution for the re-election of the Board of the Company. Prior to the re-election, the term of the First Board is proposed to be extended up to the date on which the approval of the resolution is obtained in the general meeting thereon.
2. To nominate the candidates of the new Board by the Nomination Committee at the 22nd board meeting of the First Board. If the nomination is approved in the general meeting, the term of the new members of the Board and the obligations of the Second Board will be three years from the date of the passing of 2006 AGM.
3. To propose the discussion on the contracts and remuneration of the new members of the Board at the general meeting.

Special Committee

Upon the re-election of certain Directors, the re-election of the Nomination Committee, the Audit Committee and the Remuneration and Evaluation Committee will be held.

The Nomination Committee was established on 18 Jan 2005 and its members are Mr. Zhang Yun San, Mr. Qin Xue Chang, Mr. Yan Yi Zhuang, Mr. Loke Yu (alias Loke Hoi Lam). Mr. Yan Yi Zhuang is the chairman of the Nomination Committee.

The Audit Committee was established on 20 March 2004 and its members are Mr. Qin Xue Chang, Mr. Yan Yi Zhuang, Mr. Loke Yu (alias Loke Hoi Lam). Mr. Qin Xue Chang is the chairman of the Audit Committee.

The Remuneration and Evaluation Committee was established on 18 January 2005 and its members are Mr. Zhang Yun San, Mr. Qin Xue Chang, Mr. Yan Yi Zhuang, Mr. Loke Yu (alias Loke Hoi Lam). Mr. Loke Yu (alias Loke Hoi Lam) is the chairman of the Remuneration and Evaluation Committee.

Re-elected Directors

Executive Directors

The appointment of Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang will end on 24 March 2007. Pursuant to the Articles of Association of the Company, they were appointed as executive directors by the Board until the AGM to be held on 25 May 2007.

Profiles of the aforementioned four persons are set out in page 14 of the section headed "Directors, Supervisors and Senior Management" of this annual report.

According to the nomination from the Nomination Committee, an ordinary resolution to re-elect Mr. Zhang En Rong, Mr. Zhang Yun San, Mr. Lin Fu Long and Mr. Xie Xin Cang as executive directors will be proposed by the Board of Directors of the Company at the AGM that will be held on 25 May 2007.

Non-executive Director

The appointment of Mr. Wang Ping (王平先生), a non-executive Director, ended on 29 March 2006. Pursuant to the articles of association of the Company, he was re-elected as a non-executive Director at the annual general meeting held on 12 May 2006 ("2005 AGM") with terms of office from 12 May 2006 to 11 May 2009.

Mr. Chen Jian Xiong (陳建雄先生) was appointed as a Director of the Company on 28 December 2001 and was re-appointed as a non-executive Director on 29 March 2003. Pursuant to the articles of association of the Company, he was re-elected as a non-executive Director at the annual general meeting held on 7 May 2005 ("2004 AGM") with terms of office from 7 May 2005 to 6 May 2008.



In accordance with the nomination made by the Nomination Committee, ordinary resolutions will be proposed by the Board of Directors of the Company at the annual general meeting of the Company to be held on 25 May 2007 ("2006 AGM") to re-elect Mr. Wang Ping as a non-executive Director with terms of office from the date of 2006 AGM to 11 May 2009; and to re-elect Mr. Chen Jian Xiong as a non-executive Director with terms of office from the date of 2006 AGM to 6 May 2008.

Independent Non-executive Director

The appointment of Mr. Qin Xue Chang (秦學昌先生) and Mr. Yan Yi Zhuang (閻翊莊先生), the independent non-executive Directors, ended on 29 March 2006. Pursuant to the articles of association of the Company, they were re-elected as non-executive Directors at the annual general meeting held on 12 May 2006 ("2005 AGM") with terms of office from 12 May 2006 to 11 May 2009.

In accordance with the nomination made by the Nomination Committee, ordinary resolutions will be proposed by the board of Directors of the Company at the annual general meeting of the Company to be held on 25 May 2007 ("2006 AGM") to re-elect Mr. Qin Xue Chang and Mr. Yan Yi Zhuang as independent non-executive Directors with terms of office from the date of 2006 AGM to 11 May 2009.

The appointment of Mr. Loke Yu (alias Loke Hoi Lam) as an independent non-executive Director and the chairman of the Remuneration Committee on 20 March 2004 ended on 20 March 2007. Pursuant to the Articles of Association, the appointment of Mr. Loke Yu (alias Loke Hoi Lam) as an independent non-executive Director will end on 25 May 2007 the date on which the 2006 AGM be held.

According to the nomination from the Nomination Committee, the Board of the Company will propose the ordinary resolution of re-election of Mr. Loke Yu (alias Loke Hui Lam) as independent non-executive Director for a term of three years on the 2006 AGM.

Pursuant to the requirement of Rule 5.09 of the Listing Rules of the GEM, the Company has received the confirmation letter from each independent non-executive Director before transference to the Main board. After the migration to the Main Board, pursuant to Rule 3.13 of the Listing Rules of the Main Board, the Board still regards each independent non-executive Director as an independent person.

Emoluments of Directors and Highest Paid Individuals

Details of the emoluments of the Directors and the 5 highest paid individuals the emoluments are based on their tasks, experience, qualification and/or performance, are set out in notes 8 and 9 to the financial statements.

Connected Transaction

The Company and Shouguang Molong Electro-mechanical Equipment Company Limited (壽光墨龍機電設備有限公司) (“**Molong Equipment**”) entered into a series of agreements in relation to the supply of casting to the Company (“**Casting Supply Agreements**”) on 20 March 2004, 20 December 2005 and 22 September 2006, which took effect upon the listing of the H shares of the Company on GEM on 15 April 2004 and would remain in force up to 31 December 2007 (both dates inclusive). Pursuant to the Casting Supply Agreements, Molong Equipment agreed to sell and the Company agreed to purchase casting. It has been agreed that if the castings are subject to any prescribed rates, the unit price of the casting will adopt the Prescribed Rates. Otherwise, the price will be negotiated and agreed by both parties with reference to the market price. In addition, Molong Equipment has agreed that the purchase price of the Company will not be higher than that of the same products sold by Molong Equipment to independent third parties in its normal course of business over the same period. The principal terms of the Casting Supply Agreements have been disclosed in the Listing Document dated 19 October 2006 (“Introduction Document”) for the listing by way of introduction of the entire issued H share capital on the Main Board of The Stock Exchange of Hong Kong Limited (“Main Board Listing”).

On 22 September 2005, the Company and Weihai Baolong Special Petroleum Materials Co., Ltd. (威海寶隆石油專材有限公司) (“**Weihai Baolong**”) entered into an oil well pipe billets and casing billets supply agreement. Weihai Baolong has agreed to supply the oil well pipe billets and casing billets to the Company. The agreement has been effective from 28 November 2005 and remain in force up to 31 December 2007 (both dates inclusive). It has been agreed that the supply price of oil pipe billets and casing billets charged by Weihai Baolong to the Company will be the prevailing market price less an agreed discount of not more than RMB100 per tonne. In addition, Weihai Baolong undertook that the supply price offered to the Company would not be higher than the supply price of the same goods offered to independent third parties over the same period.

On 22 September 2005, the Company and Molong Equipment entered a metallurgy accessories supply agreement. Molong Equipment has agreed to supply metallurgy accessories to the Company. The agreement has been effective from 28 November 2005 and remain in force up to 31 December 2007 (both dates inclusive). It has been agreed that the supply price of metallurgy accessories charged by Molong Equipment to the Company will adopt the fixed rates prescribed by the relevant authorities of the PRC (if any), or if no fixed rates are prescribed, with reference to the market price with a discount. In addition, Molong Equipment undertook that the supply price offered to the Company would not be higher than the supply price of the same goods offered to independent third parties by Molong Equipment over the same period.

On 22 September 2005, the Company and Molong Equipment entered into a scrap and used metal supply agreement. The Company will supply scrap and used metal to Molong Equipment. The agreement has been effective from 28 November 2005 and remain in force up to 31 December 2007 (both inclusive), It has been agreed that the supply price will adopt the fixed rate (if any), or if no fixed rate is prescribed, with reference to the prevailing market price, subject to adjustment.

As at 12 July 2006, Molong Drilling Equipment Limited (“**Molong Drilling**”), a subsidiary of the Company, entered into a co-operative agreement with Karamay Yalong Oil Well Pump Limited (“**Yalong Oil Well Pump**”) to sell oil well pumps and related accessories. The agreement is effective from 1 January 2006 to 31 December 2007 (both dates inclusive). The agreed price will be determined based on the prevailing market price.

The aforementioned five non-exempted continuing connected transactions have been approved by independent shareholders prior to listing on the Main Board in compliance with the Listing Rules of the GEM. Since the aforementioned transactions will continue and remain valid upon listing on the Main Board, the Directors have obtained a waiver from strict compliance with the announcement and/or independent shareholders' approval as requirements under Chapter 14A of Listing Rules from the Stock Exchange. If the historical figures of relevant transactions exceeds relevant annual cap or there is any material change to the terms of the relevant agreements upon renewal, the Company will fully comply with the relevant requirements of the Listing Rules of the Main Board to perform the relevant review and approval procedures.

Mr. Zhang En Rong and Mr. Zhang Yun San were promoters of the Company. According to the Listing Rules, they are connected persons of the Group. Mr. Zhang Yun Qi, the son of Mr. Zhang En Rong and the brother of Mr. Zhang Yun San, is regarded as an associate of Directors and is therefore regarded as a connected person of the Company. As Mr. Zhang Yun Qi is interested in approximately 53.15% of the equity interest in Maolong Machinery, Maolong Machinery is deemed to be a connected person of the Company.

Maolong Machinery and Mr. Luke Fang are interested in 75.0% and 25.0% of the registered capital of Molong Equipment respectively. Mr. Fang is a third party independent of and not connected with any of the Directors, Supervisors, chief executives, substantial Shareholders, management Shareholders or its subsidiaries or any of their respective associates. Given that Molong Machinery is deemed to be a connected person of the Company by The Stock Exchange and Molong Equipment is a subsidiary of Molong Machinery, Molong Equipment is also deemed to be a connected person of the Company.

Maolong Machinery and Molong Equipment are interested in 95% and 5% of the registered capital of Weihai Baolong respectively. Given that Maolong Machinery is deemed to be a connected person of the Company and that each of Molong Equipment and Weihai Baolong is a non wholly-owned subsidiary of Maolong Machinery, each of Molong Equipment and Weihai Baolong is also deemed to be a connected person of the Company.

Maolong Machinery are interested in 30% of the equity interest of Yalong Pump, and Mr. Zhang Yun Qi indirectly interested so as to exercise or control the exercise of 30% of the voting power at the general meeting, so Yalong Pump is deemed to be a connected person of the Company.

The independent non-executive Directors have reviewed the above connected transactions and confirmed that, in their opinions:

1. The transactions have been entered into by the Group in the ordinary and usual course of its businesses;
2. The transactions have been entered into on normal commercial terms, or where there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than those available to or from independent third parties; and
3. The transactions are entered into in accordance with the terms of the agreement governing such transaction and on terms that are fair and reasonable and in the interests of the Company and shareholders of the Company as a whole.

The auditors of the Company have reviewed such transactions and have provided a letter to the Company stating that:

1. The transactions have been approved by the Extraordinary General Meeting;
2. The transactions have been entered into in accordance with the pricing policies of the Company;
3. The transactions have been entered into in accordance with the relevant agreements governing such transactions; and
4. The transactions have not exceeded the relevant annual limits which had been agreed with the Stock Exchange.

In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Retirement/Pension Scheme Benefits

Staff welfare (salaries):	2006 RMB'000	2005 RMB'000
Wages and salaries	33,184	24,403
Contributions to retirement benefit schemes	3,531	5,015
Total	36,715	29,418

As stipulated by the laws, orders and regulations of the PRC, the Group participated in various defined contribution retirement plans organised by municipal governments for its staff. Currently, the Group is required to make contributions to the retirement plans at a rate of 18.0% (2005: 16.0%) of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension, to be paid by the municipal governments, equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. When the staff leave the positions, the Group is not entitled to recover the contributions paid in respect of their pension scheme benefits.

Disclosure of Directors', Supervisors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures

As at 31 December 2006, interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange, were as follows:

Long positions in shares of the Company

Name	Type of interest	Number of domestic shares	Percentage of domestic shares	Percentage of total registered share capital
Zhang En Rong	Personal	279,517,000	69.58%	43.14%
Lin Fu Long	Personal	34,216,000	8.52%	5.28%
Zhang Yun San	Personal	30,608,000	7.62%	4.72%
Xie Xin Cang	Personal	21,410,000	5.33%	3.30%

Save as disclosed above, to the best knowledge of the Directors, Supervisors and chief executive, none of the Directors, the Supervisors or chief executive had any interests or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Company as set out in Appendix 10 of the Listing Rules, to be notified to the Group and to the Stock Exchange.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

None of the Directors or Supervisors or their respective associates (as defined under the Rule 1.01 of the Listing Rules of the Main Board) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights for 2006.

Share Option Scheme

The Company does not have any share option scheme.

Substantial Shareholders

As at 31 December 2006, so far as known to the Directors, Supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive) had, or were deemed or taken to have interests or short positions in the shares and underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register to be kept under section 336 of the SFO:

Long positions in shares

Name	Type of interests	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered capital
Zhang Xiu Lan (Note 1)	Interests of spouse	279,517,000	69.58%	—	43.14%
Li Xiu Fen (Note 2)	Interests of spouse	34,216,000	8.52%	—	5.28%
Zhang Xin Lan (Note 3)	Interests of spouse	30,608,000	7.62%	—	4.72%
Li Bao Hui (Note 4)	Interests of spouse	21,410,000	5.33%	—	3.30%
Paul G. Desmarais (Note 5)	Corporate interests controlled by the significant shareholder	69,000,000	—	28.02%	10.65%
RAB Energy Fund Limited	Investment manager	33,832,000	—	13.74%	5.22%
Commonwealth Bank of Australia (Note 6)	Corporate interests controlled by the significant shareholder	19,718,000	—	8.01%	3.04%
Martin Currie Investment Management Limited	Investment manager	12,400,000	—	5.04%	1.91%
China Development Capital Partnership L.P.	Beneficial	12,400,000	—	5.04%	1.91%

Note 1: Ms. Zhang Xiu Lan is the wife of Mr. Zhang En Rong and is taken to be interested in the 279,517,000 domestic shares held by Mr. Zhang En Rong under the SFO.

Note 2: Ms. Li Xiu Fen is the wife of Mr. Lin Fu Long and is taken to be interested in the 34,216,000 domestic shares held by Mr. Lin Fu Long under the SFO.

Note 3: Ms. Zhang Xin Lan is the wife of Mr. Zhang Yun San and is taken to be interested in the 30,608,000 domestic shares held by Mr. Zhang Yun San under the SFO.

Note 4: Ms. Li Bao Hui is the wife of Mr. Xie Xin Cang and is taken to be interested in the 21,410,000 domestic shares held by Mr. Xie Xin Cang under the SFO.

Note 5: 69,000,000 H shares were directly held by certain corporations controlled by Paul G. Desmarais including 60,000,000 H shares directly held by Mackenzie Cundill Investment Management Ltd. and 9,000,000 H shares directly held by Mackenzie Cundill Investment Management (Bermuda) Ltd..

Note 6: 19,718,000 H shares were directly held by certain corporations controlled by Commonwealth Bank of Australia.

Save as disclosed above, so far as known to the Directors Supervisors or chief executive of the Company, there are no other persons not being a Director, Supervisor or chief executive of the Company who had, or were deemed or take to have interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be kept under section 336 of the SFO.

Directors' Interests in Contracts

Saved as set out in Note 34 to "Related Party Transactions" and in the section headed "Connected Transaction" above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Contracts of Significance

Saved as the transactions set out in Note 34 to "Related Party Transactions" and in the section headed "Connected Transaction", none of the Company (or any of its subsidiaries) and the controlling shareholders of the Company (or any of its subsidiaries) has entered into any material contracts, and none of the controlling shareholders of the Company (or any of its subsidiaries) has provided any material service contract to the Company (or any of its subsidiaries).

Major Customers and Suppliers

During 2006, 61% of the Group's products are sold to domestic oilfields within the PRC. In addition, 39% of the Group's products are sold to customers in countries and regions such as the North America, Western Europe, Middle East, Southeast Asia, Africa, and Latin America, etc. The five largest customers accounted for approximately 74.1% of the Group's total revenue. The largest customer of the Group accounted for approximately 41.7% of the Group's total revenue.

During 2006, the Group's major suppliers are reputable special steel producers in the PRC, with whom the Group has established good relationships. With oil well pipe being one of our main products, continuous casting pipe billet is the Group's principal raw materials. The largest supplier was 威海寶隆石油專材有限公司, which the Group has signed strategic co-operation agreement with. The five largest suppliers accounted for approximately 43.4% of the Group's total procurement. The largest supplier accounted for approximately 17.1% of the Group's total procurement.

Save as disclosed above, none of the Directors, Supervisors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors own more than 5.0% of the share capital of the Company) has any beneficial interest in any of the Group's five largest customers and suppliers.

Purchase, Sale or Redemption of Securities

Neither the Company nor its subsidiary has purchased, sold or redeemed any listed securities of the Company during 2006.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Corporate Governance

The principal Code on Corporate Governance adopted by the Company is set out in the Corporate Governance Report.

Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float throughout the year under review.

Auditors

For the four years ended 31 December 2006, the Company has not changed its auditors.

The accounts have been audited by Ernst & Young who will retire and, being eligible, will offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Group will be proposed at the forthcoming AGM.

By order of the Board of Directors

Zhang En Rong

Chairman

Shandong, the PRC

29 March 2007