

Directors' Report

The Board has the pleasure in presenting the first report and the audited financial statements of the Group for the year ended 31 December 2006.

Group reorganisation

The Company was incorporated with limited liability in the Cayman Islands on 15 June 2005. Pursuant to the reorganisation of the Group in July 2006, the Company became the holding company of the companies now comprising the Group.

Details of the reorganisation of the Group are set out in note 1 to the consolidated financial statements. The Shares were listed on the Main Board of the Stock Exchange on 8 February 2007.

Principal activities

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 30 to the consolidated financial statements.

Result and appropriations

Results of the Group for the year ended 31 December 2006 are set out under the consolidated income statement on page 27.

The Board recommends the payment of a final dividend of RMB5.79 cents per Share for the year ended 31 December 2006.

For the year ended 31 December 2006, Acquest Honour had distributed dividend to its then shareholders prior to the reorganisation of the Group. The dividends were fully paid before 31 December 2006. The rate of dividends and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

Material acquisitions or disposal of subsidiaries and associated companies

Other than the reorganisation of the Group as described in the note 1 to the consolidated financial statements, the Group had no material acquisitions or disposal of subsidiaries or associated companies for the year ended 31 December 2006.

Property, plant and equipment

Details of property, plant and equipment are set out in note 15 to the consolidated financial statements.

Share capital

Details of the movement in share capital of the Company are set out in note 24 to the consolidated financial statements.

Distributable reserves

As at 31 December 2006, the Company's reserves available for distribution to shareholders amounted to RMB272,525,000.

Directors

During the year ended 31 December 2006, Mr Li Xuechun served as the sole Director of the Company.

As at the date of this report, the Board comprised (all of whom, except Mr Li Xuechun were appointed on 10 January 2007):

Executive Directors

Mr. Li Xuechun (*Chairman*)
Mr. Wang Longxiang
Mr. Wu Xindong
Mr. Yan Ruliang
Mr. Feng Zhenquan
Mr. Xu Guohua
Mr. Li Deheng
Ms. Li Hongyu
Mr. Gong Qingli

Independent Non-executive Directors

Mr. Choi Tze Kit, Sammy
Mr. Chen Ning
Mr. Liang Wenjun

Biographical details of the directors of the Group are set out in the section headed "Biographies of Directors and Senior Management".

According to Article 87 of the articles of association of the Company, Mr. Li Xuechun, Mr. Feng Zhenquan, Mr. Xu Guohua and Mr. Li Deheng should retire by rotation and, being eligible, consider to offer themselves for re-election at the forthcoming annual general meeting of the Company.

Each of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company for an initial term of three years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day following the expiry of the then current term unless and until (i) terminated by either party there to giving not less than three months' prior written notice with the last day of the notice falling on the last day of the initial term or any time thereafter; or (ii) the Director not being re-elected as a Director or being removed by shareholders at general meeting of the Company in accordance with its articles of association.

Directors' Report

Directors' interests in Shares

As at 31 December 2006, the Company had not received any notice of interests to be recorded under section 352 of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO") nor as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code as the Company had not been listed on the Stock Exchange as at that date.

Persons having 5% or more shareholdings

As at 31 December 2006, the Company had not received any notice of interests to be recorded under section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

Arrangements to purchase shares or debentures

At no time during the year was the Company, or any of its subsidiaries or the Company's holding Company, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Directors' interest in contracts

Save for the sale and purchase agreement dated 15 July 2006 made by the Company as purchaser, Mr. Li Xuechun as warrantor, Motivator Enterprises Limited, Ever Soar, Excel Energy Limited, Hero Elite Limited and Advanced Quality Limited as vendors in relation to the acquisition of Acquest Honour, no contract of significance, to which the Company, its holdings Company or subsidiary was party and in which a Director of the Company had material interest, whether directly or indirectly, subsisted at the end of 2006 or at any time during 2006, nor had there been any contract of significance entered into between the Group and a controlling shareholder of the Company during 2006.

Major customers and suppliers

The aggregate sales attributable to the Group's largest customer and five largest customers taken together were less than 30% of the total sales for the year 2006.

The aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year 2006.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of public float

As at 20 April 2007, being the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006 as the Company had not been listed on the Main Board of Stock Exchange.

Pre-emptive rights

There are no provisions for pre-emptive rights under the articles of the association of the Company and the Companies Law of the Cayman Islands.

Corporate governance report

The listing of the Shares on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company has complied with the code provision as set out in the Code since then.

Subsequent events

Details of the significant events occurring after the balance sheet date are set out in note 32 to the consolidated financial statements.

Auditor

A resolution to reappoint PricewaterhouseCoopers as independent auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Li Xuechun

Chairman

24 April 2007