

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped and bottled gas in the People's Republic of China (the "PRC").

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 52.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

Details of the summary of the published financial information of the Group for the past five years are set out on page 21.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,155 million has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB28 million. This has been credited directly to the revaluation reserve.

Details of the movements during the year in property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements. There was no movement in share capital during the year.

RESERVES

Details of movements during the year in the reserves of the Company and the Group are set out in note 30 to the financial statements.

BANK AND OTHER LOANS

Details of bank and other loans of the Group are set out in note 26 to the financial statements.

CHARITABLE DONATIONS

Charitable donations by the Group for 2003 amounted to RMB1,974,000 (2002: RMB1,060,000).

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

Wang Yusuo	(Chairman)
Yang Yu	(Chief Executive Officer)
Chen Jiacheng	(appointed on 21 May 2003)
Zhao Jinfeng	
Qiao Limin	
Jin Yongsheng	
Yu Jianchao	
Cheung Yip Sang	
Cheng Chak Ngok	

Non-executive Director:

Zhao Baoju

Independent non-executive Directors:

Wang Guangtian
Xu Liang

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs Wang Yusuo, Chen Jiacheng and Wang Guangtian and Ms. Zhao Baoju retire by rotation and, being eligible, offer themselves for re-election.

Each of the executive Directors has entered into a service agreement with the Company. Each service agreement is of an initial term of three years commencing 1 March 2001, except that of Messrs Cheung Yip Sang and Cheng Chak Ngok, appointed on 10 April 2002 with an initial term commencing on the same day, and Mr. Chen Jiacheng, appointed on 21 May 2003 with an initial term commencing on the same day. The initial term of each service agreement expires on 29 February 2004, and each service agreement shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.

The non-executive Director and each of the independent non-executive Directors have been appointed for a term of three years, commencing 1 March 2001 and expiring on 29 February 2004. The non-executive Director and each of the independent non-executive Directors have signed a new service agreement for a term of three years, commencing on 1 March 2004 and expiring on 28 February 2007, and each service agreement shall continue thereafter until terminated by either party giving to the other not less than six months' prior written notice.

DISCLOSURE OF INTERESTS

Directors' interests or short positions in shares and in share options

As at 31 December 2003, the interest and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Mr. Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Mr. Yang Yu	Beneficial owner	–	–	–	3,350,000	3,350,000	0.45%
Mr. Chen Jiacheng	Beneficial owner	–	–	–	2,300,000	2,300,000	0.31%
Mr. Zhao Jinfeng	Beneficial owner	–	–	–	2,200,000	2,200,000	0.30%
Mr. Qiao Limin	Beneficial owner	–	–	–	2,050,000	2,050,000	0.28%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	2,100,000	2,100,000	0.28%
Mr. Yu Jianchao	Beneficial owner	–	–	–	2,100,000	2,100,000	0.28%
Mr. Cheung Yip Sang	Beneficial owner and interest of spouse	–	–	–	2,250,000 (Note 2)	2,250,000	0.31%
Mr. Cheng Chak Ngok	Beneficial owner	–	–	–	600,000	600,000	0.08%

Note:

1. The two references to 408,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

DIRECTORS' REPORT

DISCLOSURE OF INTERESTS (CONT'D)

Directors' interests or short positions in shares and in share options (Cont'd)

Details of the directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares".

Save as disclosed above, as at 31 December 2003, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options on the Company's ordinary shares in favour of certain directors, the details of which are as follows:

Name of Director	Date of Grant	Exercise period	Exercise Price	Number of shares subject to outstanding options as at 1 January 2003	Number of shares subject to outstanding options as at 31 December 2003	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,300,000	0.31%
Ms. Zhao	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,300,000 (Note 2)	0.31%
Mr. Yang Yu	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265 (Note 4)	2,400,000 –	– 3,350,000 (Note 3)	– 0.45%
Mr. Chen Jiacheng	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265 (Note 4)	1,700,000 –	– 2,300,000 (Note 3)	– 0.31%
Mr. Zhao Jinfeng	31.01.2002 14.02.2003 (Note 5)	01.08.2002 – 31.01.2012 15.08.2003 – 14.02.2013	2.625 2.265 (Note 4)	1,500,000 –	– 2,200,000 (Note 3)	– 0.30%

DISCLOSURE OF INTERESTS (CONT'D)

Directors' rights to acquire shares (Cont'd)

Name of Director	Date of Grant	Exercise period	Exercise Price	Number of shares subject to outstanding options as at 1 January 2003	Number of shares subject to outstanding options as at 31 December 2003	Approximate percentage of the Company's total issued share capital
Mr. Qiao Limin	31.01.2002	01.08.2002 – 31.01.2012	2.625	1,500,000	– (Note 3)	–
	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,050,000	0.28%
Mr. Jin Yongsheng	31.01.2002	01.08.2002 – 31.01.2012	2.625	1,500,000	– (Note 3)	–
	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,100,000	0.28%
Mr. Yu Jianchao	31.01.2002	01.08.2002 – 31.01.2012	2.625	1,500,000	– (Note 3)	–
	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,100,000	0.28%
Mr. Cheung Yip Sang	31.01.2002	01.08.2002 – 31.01.2012	2.625	1,500,000	– (Note 3)	–
	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	2,250,000 (Note 6)	0.31%
Mr. Cheng Chak Ngok	14.02.2003 (Note 5)	15.08.2003 – 14.02.2013	2.265 (Note 4)	–	600,000	0.08%

No share option was exercised by the above directors to subscribe for shares in the Company during the year.

No fair value of the options granted is disclosed as in the opinion of the Directors, certain assumptions need to derive the fair values using the Black-Scholes option pricing model and these cannot be reasonably determined for such share options.

DIRECTORS' REPORT

DISCLOSURE OF INTERESTS (CONT'D)

Directors' rights to acquire shares (Cont'd)

Note:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.
3. All the options to subscribe shares granted to certain directors and employees on 31 January 2002 were cancelled during the year.
4. The closing price of the shares immediately before the date on which the options were granted was HK\$2.25.
5. On 14 February 2003, the Directors had granted options to subscribe for an aggregate of 32,300,000 shares of the Company under the share option scheme, representing approximately 4.38% of the issued share capital of the Company as at 31 December 2003, out of which 19,000,000 share options were granted to the Directors and 13,300,000 share options were granted to the employees of the Group. As at 31 December 2003, all of the outstanding options under the share option scheme remained outstanding.
6. Out of 2,250,000 underlying shares, 250,000 underlying shares were granted to Ms. Lam Hiu Ha, the spouse of Mr. Cheung Yip Sang. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of shareholder	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares pursuant to share options	Aggregate interests	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests				
Easywin Enterprises Limited	Beneficial owner	–	408,000,000 (Note 1)	408,000,000	–	408,000,000	55.36%
Mr. Wang	Beneficial owner & interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000	413,344,000	56.08%
Ms. Zhao	Interest of spouse & interest of controlled corporation	3,044,000	408,000,000 (Note 1)	411,044,000	2,300,000 (Note 2)	413,344,000	56.08%
Wellington Management Company, LLP	Investment manager	–	58,862,000	58,862,000	–	58,862,000	7.99%
The Capital Group Companies, Inc.	Investment manager	–	48,257,000	48,257,000	–	48,257,000	6.55%

SUBSTANTIAL SHAREHOLDERS (CONT'D)

Notes:

1. The three references to 408,000,000 shares relate to the same block of shares. Such shares are held by Easywin Enterprises Limited, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 31 December 2003, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

Save for the shareholders as disclosed herein, the directors are not aware of any persons who, as at 31 December 2003, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group has entered into the following transactions and arrangements as described below with persons who are "connected" for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

On 1 January 2001, Langfang Xinao Gas Company Limited ("Langfang Xinao"), the indirect wholly-owned subsidiary of the Company, signed two contracts for a term of four years with Langfang Xinao Property Management Company Limited ("Langfang Xinao Property Management") (note 1), which provides property management services to Langfang Xinao for two office buildings situated in Langfang City with an annual service fee of RMB1,380,000.

On 1 January 2001, Langfang Xinao leased a staff quarter situated in Langfang City to Langfang Xinao Property Management and another staff quarter also situated in Langfang City to Xinao Group Company Limited (XGCL) (note 1) and signed contracts with them individually for a term of four years with annual rental of RMB330,000 and RMB436,000 respectively.

Langfang Xinao entered into a property leasing agreement and a supplemental property leasing agreement with XGCL in relation to the leasing of the office building situated in Langfang City. The annual rental is RMB1,039,000 plus a reimbursement of management fee of RMB264,000 per annum. The contract term is for four years commencing from 1 January 2001.

On 6 January 2003, Haining Xinao Gas Company Limited ("Haining Xinao"), the indirect non-wholly-owned subsidiary of the Company, signed a contract without a fixed term with Haining Wan Tong Gas Company Limited ("Haining Wan Tong"), the PRC JV partner of Haining Xinao, for a gas station with annual rent of RMB50,000. Haining Xinao also paid interest expenses RMB66,000 to Haining Wan Tong.

On 1 April 2003, Haining Xinao signed contract for a term of 1 year with Haining Min Tai Coal Gas Company ("Haining Coal Gas"), the PRC JV partner of Haining Xinao, for an office building with annual rent of RMB120,000. During the year, Haining Xinao also bought liquefied petroleum gas ("LPG") from Haining Coal Gas for a consideration of RMB737,000.

On 2 June 2003, Xinao Pinggu Investment Limited ("Pinggu BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Pinggu County LPG Company ("Pinggu LPG"), the PRC JV partner of Beijing Xinao Jinggu Gas Company Limited ("Jinggu Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Pinggu BVI acquired 20% interest in Jinggu Xinao for a consideration of RMB1,980,000. Upon the completion of the acquisition, Pinggu BVI's equity interests in Jinggu Xinao increased from 70% to 90%, thereby increasing the Group's share of profit in Jinggu Xinao by 20%.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (CONT'D)

On 19 June 2003, Xinao Zhejiang Investment Limited ("Zhejiang BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Anji County Pipeline LPG Company Limited ("Anji Pipeline"), a subsidiary of Anji County Fengning LPG Company ("Anji Fengning"), which is the PRC JV partner of Anji Xinao Gas Company Limited ("Anji Xinao"), the indirect non-wholly-owned subsidiary of the company, whereby Anji Pipeline acquired 90% interests in Anji Xinao. Zhejiang BVI has also on the same day entered into the supplemental agreement with Anji Fengning and Anji Pipeline, setting out the detailed arrangements in connection with the disposal. The consideration for the disposal was RMB3,129,400. After the disposal, Zhejiang BVI has no interest in Anji Xinao. The Group re-deploys its resources, including management, financial and human resources, into other projects, and such disposal can enable the Group to obtain better economies of scale in operation and investment.

On 19 September 2003, Beijing Xinao Gas Company Limited ("Beijing Xinao"), the indirect non-wholly-owned subsidiary of the Company, entered into the Sale and Purchase agreement with Beijing Xinao Guangxia Property Development Company Limited ("Beijing Guangxia") (note 1) to purchase a property, which is used as Beijing Xinao's office. The consideration is RMB9,590,000.

On 19 September 2003, Xinao Jiangsu Investment Limited ("Jingsu BVI"), the indirect wholly-owned subsidiary of the Company, entered into the shares transfer agreement with Shanghai Yanxin Enterprise Investment Company Limited ("Shanghai Yanxin"), the PRC JV partner of Yancheng Xinao Gas Company Limited ("Yancheng Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Jiangsu BVI acquired 20% interests in Yancheng Xinao. The consideration for the acquisition was RMB2,380,000. Upon the completion of the acquisition, Jiangsu BVI's equity interests in Yancheng Xinao increased from 80% to 100%, thereby increasing the Group's share of profit in Yancheng Xinao by 20%.

During the year, Xinao (China) Gas Development Company Limited ("Xinao Gas Development"), the indirect wholly-owned subsidiary of the Company, provided gas connection services to Langfang Xincheng Property Development Company Limited ("Xincheng Property") (note 1) with the contract sum of RMB1,920,000.

During the year, the subsidiaries of the Company, including Xinao Gas Development, Xinghua Xinao Gas Company Limited ("Xinghua Xinao"), Changzhou Xinao Gas Company Limited ("Changzhou Xinao"), Langfang Xinao Gas Equipment Company Limited ("Xinao Gas Equipment") and Langfang Xinao Software Technology Company Limited ("Xinao Software"), acquired natural gas truck trailers, pressure regulating and gas equipment from Xinao Group Shijiazhuang Chemical and Machinery Company Limited ("Xinao Machinery") (note 1) in order to operate the distribution of natural gas. The total considerations of the contracts are RMB10,702,000.

During the year, Xinao Gas Development purchased heaters from Xinao Group International Economic Development Company Limited ("Xinao Group International") (Note 1) for a consideration of RMB42,000.

During the year, Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Enric Bengbu Compressed Machinery Company Limited ("Enric Bengbu") (Note 1) with the amount of RMB315,000. Bengbu Xinao also sold LPG to and purchased repair materials from Enric Bengbu for the considerations of RMB41,000 and RMB42,000 respectively. Enric Bengbu purchased LPG from and sold repair materials to Bengbu Xinao Gas Development Company Limited ("Bengbu Xinao Development"), the indirect non-wholly-owned subsidiary of the Company, and Xinao Gas Development with the considerations of RMB34,000 and RMB51,000 respectively.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (CONT'D)

During the year, Changsha Xinao Gas Company Limited ("Changsha Xinao"), the indirect non-wholly-owned subsidiary of the Company, purchased materials from Changsha Gas Company, the PRC JV partner of Changsha Xinao, with a consideration of RMB152,000.

During the year, Anji Xinao, the indirect non-wholly-owned subsidiary of the Company, purchased LPG from Anji Fengning, the PRC JV partner of Anji Xinao, with a consideration of RMB222,000.

During the year, Changzhou City Wujin Gas Company ("Changzhou Gas"), Lianyungang City Construction Investment Company Limited ("Lianyungang Construction"), Kaifeng City Development Investment Company Limited ("Kaifeng Development"), Xiangtan City Coal Gas Company ("Xiangtan Coal Gas"), the PRC JV partners of the Company's indirect non-wholly-owned subsidiaries Changzhou Xinao, Lianyungang Xinao Gas Company Limited ("Lianyungang Xinao"), Kaifeng Xinao Gas Company Limited ("Kaifeng Xinao") and Xiangtan Xinao Gas Company Limited ("Xiangtan Xinao") respectively, had loans advanced to Changzhou Xinao, Lianyungang Xinao, Kaifeng Xinao and Xiangtan Xinao with the loan amounts of RMB29,000,000, RMB500,000, RMB8,000,000 and RMB4,472,000 respectively.

During the year, the Company's indirect non-wholly-owned subsidiaries of Huaian Xinao Gas Company Limited ("Huaian Xinao"), Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao"), Changzhou Xinao, Kaifeng Xinao and Xiangtan Xinao paid loan interest of RMB60,000, RMB278,000, RMB658,000, RMB86,000 and RMB51,000 to Huaian City Gas Company ("Huaian Gas"), Xinxiang City Gas Company ("Xinxiang Gas"), Changzhou Gas, Kaifeng Development and Xiangtan Coal Gas respectively. Huaian Gas and Xinxiang Gas is the PRC JV partner of Huaian Xinao and Xinxiang Xinao respectively. The loans advanced to the subsidiaries were actually the acquisition of liabilities from respective PRC JV partners when forming the new JVs.

Note:

1. Langfang Xinao Property Management, XGCL, Beijing Guangxia, Xincheng Property, Xinao Machinery, Enric Bengbu and Xinao Group International are controlled by Mr. Wang, the Chairman of the Company.
2. All subsidiaries of the Company in the PRC, PRC JV partners and related parties mentioned in note 1 have names in Chinese only, and the English names used here are for reference only.

In the opinion of the independent non-executive Directors, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Other than as disclosed above, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options as set out in Directors' rights to acquire shares, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2003.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively accounted for less than 30% of the Group's total turnover and purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

The Group recognises the importance of corporate governance and shares the view that to maintain a highly transparent management system is critical to our shareholders, investors, customers, employees as well as the industry watchdog. The Group has the Executive Committee to review major investment projects of the Group, give decisive advice, draw up annual operation plans, financial budgets and large financing packages, review proposals on appointments and removals, etc. The Group also has the Strategic Committee to analyse and study the macro economy and industry policies, establish strategies and long term goals for the Group. Both Executive Committee and Strategic Committee are the decision making cores of the Group, they review the proposals raised by each other to ensure that the proposals are tactical and executable. The Group also has the Supervisory Committee, an internal supervisory division, responsible for risks management and stringent internal audit on decision and regulation systems, operations, management and performance of the Group to ensure that the Group operates on the right track.

It is part of our strategy to stay open and responsive to any queries that our shareholders and investors may have from time to time. Besides, our financial and operation management practice are highly regarded by the investment community, and as a result of that, we have obtained numerous awards from the community. It is also our aim to continue to enhance our management quality.

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited throughout the year.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. Members of the Audit Committee are Mr. Wang Guangtian, Mr. Xu Liang (all of the above are independent non-executive Directors) and Mr. Yu Jian Chao (an executive Director). The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2003. Two Audit Committee meetings were held during the financial year.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

WANG Yusuo

Chairman

Hong Kong, 20 April 2004