

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2004.

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 2004 are set out in the consolidated income statement on page 50.

The directors recommend the payment of a final dividend of HK\$2.71 cents (equivalent to approximately RMB2.87 cents) per share to the shareholders on the register of members on 23 May 2005. The total dividend amount is approximately RMB25,254,000, and the retention of the remaining profit for the year is approximately RMB227,003,000.

FINANCIAL SUMMARY

Details of the summary of the published financial information of the Group for the past six 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 RMB965,402,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation surplus amounting to RMB26,460,000. 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 movements in the share capital of the Company are set out in note 29 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Company and the Group are set out in note 31 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 2004 amounted to RMB56,000 (2003: RMB1,974,000).

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 | |
| 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 | (resigned on 31 March 2005) |
| Yien Yu Yu, Catherine | (appointed on 28 September 2004) |
| Kong Chung Kau | (appointed on 31 March 2005) |

In accordance with Articles 99 and 116 of the Company's Articles of Association, Messrs Qiao Limin, Jin Yongsheng, Cheng Chak Ngok and Kong Chung Kau and Ms. Yien Yu Yu, Catherine 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.

Ms. Zhao Baoju and Mr. Wang Guangtian have been appointed for an initial term of three years, commencing 1 March 2001 and expiring on 29 February 2004, and then they have signed a new service agreement for a term of three years, commencing on 1 March 2004 and expiring on 28 February 2007. The service agreement of Ms. Yien Yu Yu, Catherine commences on 28 September 2004 and expires on 27 September 2007. The service agreement of Mr. Kong Chong Kau commences on 31 March 2005 and expires on 30 March 2008.

DISCLOSURE OF INTERESTS

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

As at 31 December 2004, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, 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 | Family interests | | | | |
| Mr. Wang Yusuo ("Mr. Wang") | Beneficial owner and interest of controlled corporation | 3,044,000 (Note 1) | 384,486,000 (Note 2) | – | 387,530,000 | 2,300,000 (Note 3) | 389,830,000 | 44.94% |
| Ms. Zhao Baoju ("Ms. Zhao") | Interest of spouse and interest of controlled corporation | – | 384,486,000 (Note 2) | 3,044,000 (Note 1) | 387,530,000 | 2,300,000 (Note 3) | 389,830,000 | 44.94% |
| Mr. Yang Yu | Beneficial owner | – | – | – | – | 3,350,000 | 3,350,000 | 0.39% |
| Mr. Chen Jiacheng | Beneficial owner | – | – | – | – | 2,300,000 | 2,300,000 | 0.27% |
| Mr. Zhao Jinfeng | Beneficial owner | – | – | – | – | 1,775,000 | 1,775,000 | 0.20% |
| Mr. Qiao Limin | Beneficial owner | – | – | – | – | 1,025,000 | 1,025,000 | 0.12% |
| Mr. Jin Yongsheng | Beneficial owner | – | – | – | – | 2,100,000 | 2,100,000 | 0.24% |
| Mr. Yu Jianchao | Beneficial owner | – | – | – | – | 2,100,000 | 2,100,000 | 0.24% |
| Mr. Cheung Yip Sang | Beneficial owner and interest of spouse | – | – | – | – | 1,887,500 (Note 4) | 1,887,500 | 0.22% |
| Mr. Cheng Chak Ngok | Beneficial owner | – | – | – | – | 450,000 | 450,000 | 0.05% |

Note:

1. The two references to 3,044,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
2. The two references to 384,486,000 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.
3. 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.
4. Out of 1,887,500 underlying shares, 125,000 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 spouse under the SFO.

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 2004, 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).

DISCLOSURE OF INTERESTS (continued)

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 2004 | Number of options exercised as at 31 December 2004 | Number of shares subject to outstanding options as at 31 December 2004 | Approximate percentage of the Company's total issued share capital |
|---------------------|------------------------|----------------------------|-------------------|--|--|--|--|
| Mr. Wang | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,300,000 | – | 2,300,000 (Note 2) | 0.27% |
| Ms. Zhao | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,300,000 | – | 2,300,000 (Note 2) | 0.27% |
| Mr. Yang Yu | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 3,350,000 | – | 3,350,000 | 0.39% |
| Mr. Chen Jiacheng | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,300,000 | – | 2,300,000 | 0.27% |
| Mr. Zhao Jinfeng | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,200,000 | (425,000) (Note 6) | 1,775,000 | 0.20% |
| Mr. Qiao Limin | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,050,000 | (1,025,000) (Note 6) | 1,025,000 | 0.12% |
| Mr. Jin Yongsheng | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,100,000 | – | 2,100,000 | 0.24% |
| Mr. Yu Jianchao | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,100,000 | – | 2,100,000 | 0.24% |
| Mr. Cheung Yip Sang | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 2,250,000 | (362,500) (Note 6) | 1,887,500 (Note 5) | 0.22% |
| Mr. Cheng Chak Ngok | 14.02.2003 (Note 4) | 15.08.2003 – 14.02.2013 | 2.265 (Note 3) | 600,000 | (150,000) (Note 6) | 450,000 | 0.05% |

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.

DISCLOSURE OF INTERESTS (continued)

Directors' rights to acquire shares (continued)

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. The closing price of the shares immediately before the date on which the options were granted was HK\$2.25.
4. 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, out of which 19,250,000 share options were granted to the Directors and 13,050,000 share options were granted to the employees of the Group. As at 31 December 2004, 8,487,500 share options were exercised, of which 1,962,500 share options were granted to directors and 6,525,000 share options were granted to employees; There are 23,812,500 share options outstanding, representing approximately 2.74% of the total issued capital of the Company as at 31 December 2004.
5. Out of 1,887,500 underlying shares, 125,000 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.
6. The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.205.

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 2004, 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 in shares and underlying shares | Approximate percentage of the Company's total issued share capital |
|--------------------------------------|---|-----------------------|-------------------------|-----------------------|---------------------------|--|---|--|
| | | Personal interests | Corporate interests | Family interests | | | | |
| Easywin Enterprises Limited | Beneficial owner | – | 384,486,000 (Note 2) | – | 384,486,000 | – | 384,486,000 | 44.32% |
| Mr. Wang | Beneficial owner & interest of controlled corporation | 3,044,000 (Note 1) | 384,486,000 (Note 2) | – | 387,530,000 | 2,300,000 (Note 3) | 389,830,000 | 44.94% |
| Ms. Zhao | Interest of spouse & interest of controlled corporation | – | 384,486,000 (Note 2) | 3,044,000 (Note 1) | 387,530,000 | 2,300,000 (Note 3) | 389,830,000 | 44.94% |
| TIAA-CREF Investment Management, LLC | Investment manager | – | 60,296,000 | – | 60,296,000 | – | 60,296,000 | 6.95% |
| The Capital Group Companies, Inc. | Investment manager | – | 53,421,000 | – | 53,421,000 | – | 53,421,000 | 6.16% |

Notes:

1. The two references to 3,044,000 shares relate to the same block of shares, which are held by Mr. Wang. Ms. Zhao is the spouse of Mr. Wang and is taken to be interested in the shares held by spouse under the SFO.
2. The three references to 384,486,000 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.
3. 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.

SUBSTANTIAL SHAREHOLDERS *(continued)*

Save as disclosed above, as at 31 December 2004, 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 2004, 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, leased a gas station from Haining Wantong Gas Company Limited ("Haining Wantong"), the PRC JV partner of Haining Xinao, and signed a contract without fixed term with an annual rent of RMB50,000.

On 1 April 2003, Haining Xinao signed contract for a term of 1 year and would continue thereafter with Haining Mintai Coal Gas Company ("Haining Coal Gas"), the PRC JV partner of Haining Xinao, for leasing an office building with annual rent of RMB120,000 from Haining Coal Gas. During the year, Haining Xinao also purchased gas from Haining Coal Gas for a consideration of RMB705,000.

On 28 May 2004, Langfang Xinao entered into the shares transfer agreement with Zhucheng City Gas and Heating Corporation, the PRC JV partner of Zhucheng Xinao Gas Company Limited ("Zhucheng Xinao"), the indirect non-wholly-owned subsidiary of the Company, whereby Langfang Xinao acquired 20% interest in Zhucheng Xinao for a consideration of RMB5,000,000. Upon the completion of the acquisition, the Group's equity interests in Zhucheng Xinao increased from 80% to 100%, thereby increasing the Group's share of profit in Zhucheng Xinao by 20%.

During the year, Xinao 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 RMB18,412,000.

During the years, Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Shijiazhuang Enric Gas Machinery Company Limited ("Shijiazhuang Enric") (note 1) with the contract sum of RMB3,600,000.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS (continued)

During the year, the subsidiaries of the Company, including Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), Changsha Xinao Gas Company Limited ("Changsha Xinao"), Changzhou Xinao Gas Company Limited ("Changzhou Xinao"), Guilin Xinao Gas Company Limited ("Guilin Xinao"), Haian Xinao Gas Company Limited ("Haian Xinao"), Huaian Xinao Gas Company Limited ("Huaian Xinao"), Laiyang Xinao Gas Company Limited ("Laiyang Xinao"), Langfang Xinao, Lianyungang Xinao Gas Company Limited ("Lianyungang Xinao"), Liaocheng Xinao Gas Company Limited ("Liaocheng Xinao"), Liaocheng Xinao Gas Engineering Company Limited ("Liaocheng Gas Engineering"), Qingdao Xinao Gas Company Limited ("Qingdao Xinao"), Qingdao Xinao Jiaocheng Gas Company Limited ("Jiaocheng Xinao"), Qingdao Xinao Jiaonan Gas Company Limited ("Jiaonan Xinao"), Qingdao Xinao Xincheng Gas Engineering Company Limited ("Xincheng Gas Engineering"), Shijiazhuang Xinao, Taixing Xinao Gas Company Limited ("Taixing Xinao"), Tongliao Xinao Gas Company Limited ("Tongliao Xinao"), Wenzhou Xinao Gas Company Limited ("Wenzhou Xinao"), Xinao Gas Development, Xinghua Xinao Gas Company Limited ("Xinghua Xinao"), Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao"), Yangzhou Xinao Gas Company Limited ("Yangzhou Xinao") and Yantai Xinao Gas Company Limited ("Yantai Xinao"), purchased natural gas truck trailers, pressure regulating and gas equipment from Xinao Group Shijiazhuang Chemical and Machinery Company Limited ("Xinao Machinery") (note 1) and Enric Bengbu Compressor Company Limited "Enric Bengbu" (note 1) in order to operate the distribution of natural gas. The total considerations of the contracts are RMB22,380,000 and RMB11,603,000.

During the year, Changzhou Xinao, Kaifeng Xinao, Liaocheng Xinao, Qingdao Xinao Xincheng Gas Company Limited ("Xincheng Xinao") and Xinao Gas Equipment Company Limited ("Xinao Gas Equipment") purchased gas appliances from Xinao Group International Economic Development Company Limited ("Xinao Group International") (Note 1) for a consideration of RMB752,000.

During the year, Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), the indirect non-wholly-owned subsidiary of the Company, provided gas connection services to Bengbu Xinao Property Company Limited ("Bengbu Property") (note 1) with the amount of RMB1,843,000. Bengbu Xinao also sold materials to Enric Bengbu for a total consideration of RMB25,000. Enric Bengbu purchased gas from Bengbu Xinao Gas Development Company Limited ("Bengbu Gas Development"), the indirect non-wholly-owned subsidiary of the Company, for a total consideration of RMB73,000.

During the year, Huaian Xinao purchased materials from Enric Bengbu for a consideration of RMB107,000.

During the year, the loans advanced from Changzhou City Wujin Gas Company ("Changzhou Gas") and Kaifeng City Development Investment Company Limited ("Kaifeng Development"), the PRC JV partners of the Company's indirect non-wholly-owned subsidiaries Changzhou Xinao and Kaifeng Xinao Gas Company Limited ("Kaifeng Xinao") respectively, had been fully repaid by Changzhou Xinao and Kaifeng Xinao with the loan amounts of RMB17,000,000 and RMB8,000,000 respectively.

During the year, Changzhou Xinao and Kaifeng Xinao, the Company's indirect non-wholly-owned subsidiaries paid loan interest of RMB397,000 and RMB244,000 to Changzhou Gas and Kaifeng Development respectively. The loans advanced to the subsidiaries were actually the acquisition of liabilities from respective PRC JV partners when forming the new JVs.

During the year, Zhanjiang City Gas Company, the PRC JV partner of Zhanjiang Xinao Gas Company Limited ("Zhangjiang Xinao"), the indirect non-wholly-owned subsidiary of the company, leased a gas station and related facilities to Zhanjiang Xinao for a period of three months commencing in October 2004. A lease agreement was signed by both parties for a monthly rent of RMB150,000.

Note:

1. Langfang Xinao Property Management, XGCL, Xincheng Property, Shijiazhuang Enric, Xinao Machinery, Enric Bengbu, Xinao Group International and Bengbu Property 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 above 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 issued five-year convertible bonds in an aggregate principal amount of HK\$550,000,000 on 15 November 2004. The bonds are zero coupon bonds; the issue price is 100% whereas the redemption price is 106.43%, which means that the effective interest rate is 1.25% per annum. The bondholders have the option to require the Company to redeem the bonds 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the bonds to maturity or exercise the conversion right during the conversion period. Bondholders can exercise the conversion right between 15 December 2004 and 15 November 2009 and convert the bonds into ordinary shares of HK\$0.10 each of the Company, and the Company has the option to issue share or pay cash in lieu of shares to such bondholders. The conversion price for each ordinary share at the issue date of the bonds was HK\$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the bonds are converted into shares, 101,145,000 ordinary shares of the Company will be issued, equivalent to 11.66% of the total issued share capital of the Company as at 31 December 2004. No one exercised conversion right as of 31 December 2004.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2004.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the purchases attributable to the Group's largest supplier and the five largest suppliers were 12.0% and 35.8% respectively during the year. None of the Directors, their associates, or any shareholders (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30% during the year.

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. Since listing, we have obtained numerous awards from the investment community regarding our financial and operation management practice. It is also our aim to continue to enhance our management quality.

The Company has complied with the Code of Best Practice as was then 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, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau, who are all independent non-executive Directors. Mr. Xu Liang was a member of the Audit Committee in 2004 and ceased to act as a member on 31 March 2005. The Audit Committee has reviewed the unaudited interim accounts and the audited annual accounts for 2004. Two Audit Committee meetings were held during the financial year.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established on 31 December 2004 and is composed of one executive Director, namely, Mr. Yang Yu, and three independent non-executive Directors, namely, Mr. Wang Guangtian, Ms. Yien Yu Yu, Catherine and Mr. Kong Chung Kau. The Remuneration Committee's responsibilities includes the review of the Company's policy for remuneration of Directors and senior management and determination the remuneration packages of executive Directors and senior management including benefits in kind, pension rights and compensation payments.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

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 2005