

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 41 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 36.

An interim dividend of HK1 cent (2004: Nil) per Share and special interim dividend of HK1 cent (2004: Nil) per Share, amounting to HK\$96,751,662.24, was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of HK1.0 cent (2004: HK3.5 cents) per Share to the shareholders on the register of members on Monday, 29 May 2006, estimated to be HK\$48,376,000, and the retention of the remaining profit in reserves.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the authorised and issued share capital of the Company during the year are set out in note 31 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 39.

The Company's reserve available for distribution to shareholder at 31 December 2005 amounted to HK\$340,800,000 (2004: Nil).

Report of the Directors

DIRECTORS

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

Executive Directors:

Ou Yaping (*Chairman*)

Leng Xuesong (resigned on 2 June 2005)

Tang Yui Man Francis

Xiang Ya Bo

Xu Xinghai

Non-executive Director:

Sun Qiang Chang (*Non-executive Vice Chairman*)

Independent Non-executive Directors:

Xin Luo Lin

Lu Yungang

Davin A. Mackenzie

In accordance with clause 87(2) of the bye-laws of the Company ("Bye-laws"), Messrs Ou Yaping, Sun Qiang Chang and Xu Xinghai shall retire by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election, except for Mr. Xu Xinghai, who does not offer himself for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of The Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

No director proposed for re-election at the forthcoming AGM has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

At 31 December 2005, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and 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: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions or short positions in Shares and underlying Shares

Interest in shares long positions

Name of Directors	Capacity	Interest in Shares Long positions/ (short positions)		Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital
		Corporate interest	Total interest in Shares			
Lu Yungang	Beneficial owner	-	-	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	Beneficial owner	-	-	2,288,000	2,288,000	0.05%
Ou Yaping	Beneficial owner and interest in controlled corporations	3,617,895,635	3,617,895,635 (Note)	2,288,000	3,620,183,635	74.83%
Sun Qiang Chang	Beneficial owner	-	-	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	-	-	22,880,000	22,880,000	0.47%
Xiang Ya Bo	Beneficial owner	-	-	22,880,000	22,880,000	0.47%
Xin Luo Lin	Beneficial owner	-	-	2,288,000	2,288,000	0.05%
Xu Xinghai	Beneficial owner	-	-	2,000,000	2,000,000	0.04%

Note: The 3,617,895,635 Shares represent the aggregate of: (i) the 3,393,905,282 Shares held by Sinolink; and (ii) the 223,990,353 Shares held by Smart Orient Investments Limited ("Smart Orient"), a wholly-owned subsidiary of Sinolink (Mr. Ou Yaping through his wholly-owned company, Asia Pacific Promotion Limited ("Asia Pacific"), holds approximately 52.15% of the issued share capital of Sinolink and is therefore deemed to be interested in such Shares in which Sinolink is interested).

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

Report of the Directors

(b) Directors' interests or short positions in shares and underlying shares in associated corporations

Name of Directors	Name of associated corporations	Capacity	Interest in shares/ (short positions)			Total interest in shares	Interest in underlying share pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation
			Personal interest	Corporate interest	Family interest				
Davin A. Mackenzie	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.08%
Ou Yaping	Panva Gas	Beneficial owner	-	575,806,587	-	575,806,587	3,600,000	579,406,587	61.49%
		and interest in controlled corporations	-	(19,230,769) (Note 1) (Note 2)	-	(19,230,769)	-	(19,230,769)	(2.04%)
	Sinolink	Interest in controlled corporations and joint interest	-	1,374,222,000 (Note 3)	6,475,920	1,380,697,920	-	1,380,697,920	52.40%
	Asia Pacific	Beneficial owner	2	-	-	2	-	2	100.00%
Tang Yui Man	Panva Gas	Beneficial owner	3,440,000	-	-	3,440,000	3,960,000	7,400,000	0.79%
Francis	Sinolink	Beneficial owner	-	-	-	-	19,000,000	19,000,000	0.72%
Xin Luo Lin	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.08%

Notes:

- The 575,806,587 shares in Panva Gas represent the aggregate of (i) 401,233,462 shares of Panva Gas held by Kenson Investment Limited ("Kenson") and 169,491,525 shares of Panva Gas held by Supreme All Investments Limited ("Supreme All"). Kenson and Supreme All are wholly-owned subsidiaries of the Company. 74.79% interests of the Company were held by Sinolink as at 31 December, 2005 and 52.15% interests of Sinolink are held by Asia Pacific; and (ii) 5,081,600 shares of Panva Gas held by Asia Pacific directly. As Asia Pacific is owned by Mr. Ou Yaping, he is deemed under the SFO to be interested in such 575,806,587 shares of Panva Gas.
- Kenson is under an obligation to transfer 19,230,769 shares of Panva Gas to Hutchison International Limited ("Hutchison International") upon full exchange of a HK\$62,500,000 exchangeable redeemable note of Panva Gas (the "Note") held by Hutchison International in accordance with the terms and conditions of the Note.
- These shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Ou Yaping, Chairman of Sinolink.

Details of the Directors' interests in share options granted by the associated corporations are set out under the heading "Directors' rights to acquire Shares".

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

(a) Interest in options to subscribe for Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors of the Company options to subscribe the Share, details of which as at 31 December 2005 were as follows:

Name of directors	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding option as at 1.1.2005	Number of Shares subject to outstanding options as at 31.12.2005	Percentage of the issued share capital of the Company
Lu Yungang	09.06.2004	09.06.2005 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	20.10.2004	20.10.2005 – 19.10.2015	0.50	2,288,000	2,288,000	0.05%
Ou Yaping	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Sun Qiang Chang	24.05.2000	24.05.2000 – 23.05.2010	0.55	26,250,000	-	-
	20.12.2005	20.12.2005 – 07.12.2015	0.83	-	15,000,000	0.31%
Tang Yui Man Francis	09.06.2004	09.06.2004 – 08.06.2014	0.44	22,880,000	22,880,000	0.47%
Xiang Ya Bo	09.06.2004	09.06.2004 – 08.06.2014	0.44	22,880,000	22,880,000	0.47%
Xin Luo Lin	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Xu Xinghai	09.06.2004	09.06.2005 – 08.06.2014	0.44	666,666	666,666	0.01%
	09.06.2004	09.06.2006 – 08.06.2014	0.44	666,666	666,666	0.01%
	09.06.2004	09.12.2006 – 08.06.2014	0.44	666,668	666,668	0.01%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, 15,000,000 options were granted to the Director and 26,250,000 options were lapsed under the share option scheme. No options were exercised by the Directors and no option held by the Directors were cancelled under the share option schemes.
3. These options represent personal interest held by the directors as beneficial owners.

Report of the Directors

(b) Interest in options to subscribe for shares of associated corporations

Name of directors	Name of associated corporations	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding options as at 1.1.2005	Number of Shares subject to outstanding options as at 31.12.2005	Approximate percentage of the issued share capital of associated corporations
Davin A. Mackenzie	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	600,000	0.02%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	600,000	0.02%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	800,000	0.03%
Ou Yaping	Panva Gas	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
		04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	1,800,000	0.19%
Tang Yui Man Francis	Panva Gas	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	960,000	0.10%
		19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	900,000	0.10%
		19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	900,000	0.10%
		19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	1,200,000	0.13%
	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	5,700,000	0.22%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	5,700,000	0.22%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	7,600,000	0.29%
Xin Luo Lin	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	600,000	0.02%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	600,000	0.02%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	800,000	0.03%

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. These options represent personal interest held by the Directors as beneficial owners.

Save as disclosed above, at no time during the year, the Directors, chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (warrants or debentures of the Company, if applicable) or any of its associated corporations required to be disclosed pursuant to the SFO.

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SHARE OPTION SCHEMES OF THE GROUP

(A) The Company's Share Option Scheme

(a) 1993 Share Option Scheme

The Company had a share option scheme (the "1993 Scheme") under which the Board might, at its discretion, grant options to any eligible employees of the Group including Directors or its subsidiaries for the recognition of their contributions to the Group, to subscribe for Shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme was the higher of the nominal value of the Shares and 80 per cent of the average of the closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of the grant.

Under the 1993 Scheme, the maximum number of Shares in respect of which options might be granted would not exceed 10% of the issued share capital of the Company from time to time. The maximum number of Shares issued to each employee or Director in respect of which options might be granted should not exceed 25% of the total Shares in issue or to be issued under the 1993 Scheme.

The consideration on acceptance of an offer of the grant of an option was HK\$1 payable within 28 days from the offer date.

The 1993 Scheme was terminated on 24 May 2002. No further options shall therefore be offered under 1993 Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 1993 Scheme shall remain in full force and effect.

At 31 December 2005, no Shares may be issued upon exercise of all options which had been granted and yet to be exercised under the 1993 Scheme.

(b) 2002 Share Option Scheme

Pursuant to an ordinary resolution passed at the special general meeting held on 24 May 2002 ("Date of Adoption"), the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years from the Date of Adoption. The Board may grant options to eligible employees, including Directors and its subsidiaries, to subscribe for Shares for the recognition of their contributions to the Group.

The total number of Shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the Date of Adoption, without prior approval from the Company's shareholders. The number of Shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue at any point in time, without prior approval from the Company's shareholders.

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A nominal consideration of HK\$1 is payable on the grant of an option. Option granted must be taken within 28 days of the date of grant. The exercise price is the highest of the closing price of the Shares as stated on the Stock Exchange on the date of grant, the average of the closing prices of the Share as stated on the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the Share.

At 31 December 2005, a total of 90,978,672 shares (representing approximately 1.88% of the existing issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2002 Scheme.

The following table discloses movements in the Company's share options during the year:

		Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Resigned as director during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31.12.2005
Category 1: Directors								
Leng Xuesong	2002 Scheme	5,000,000	-	-	(5,000,000)	-	-	-
Lu Yungang	2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Davin A. Mackenzie	2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Ou Yaping	2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Sun Qiang	1993 Scheme	26,250,000	-	-	-	(26,250,000)	-	-
Chang	2002 Scheme	-	15,000,000	-	-	-	-	15,000,000
Tang Yui Man Francis	2002 Scheme	22,880,000	-	-	-	-	-	22,880,000
Xiang Ya Bo	2002 Scheme	22,880,000	-	-	-	-	-	22,880,000
Xin Luo Lin	2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Xu Xinghai	2002 Scheme	2,000,000	-	-	-	-	-	2,000,000
Total for Directors		88,162,000	15,000,000	-	(5,000,000)	(26,250,000)	-	71,912,000
Category 2: Other participant								
	2002 Scheme	-	-	-	5,000,000	(5,000,000)	-	-
Category 3: Employees								
Total for employees	2002 Scheme	26,900,000	-	(5,733,328)	-	-	(2,100,000)	19,066,672
All categories		115,062,000	15,000,000	(5,733,328)	-	(31,250,000)	(2,100,000)	90,978,672

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Details of specific categories options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
1993 Scheme	24.05.2000	24.05.2000 – 23.05.2010	0.55
2002 Scheme	09.06.2004	09.06.2004 – 08.06.2014	0.44
	09.06.2004	09.06.2005 – 08.06.2014	0.44
	09.06.2004	09.06.2006 – 08.06.2014	0.44
	09.06.2004	09.12.2006 – 08.06.2014	0.44
	20.10.2004	20.10.2005 – 19.10.2015	0.50
	20.12.2005	20.12.2005 – 07.12.2015	0.83

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The closing price of the Shares immediately before 20 December 2005, the date of grant 2005 options under 2002 Scheme was HK\$0.80.
- During the year ended 31 December 2005, the weighted average share price of the Company at the date of exercise of the share options was at a range of HK\$0.78 to HK\$0.86.
- During the year, 15,000,000 options were granted and 5,733,328 options were exercised under the share option schemes.
- During the year, 31,250,000 options were lapsed under the share option schemes and 2,100,000 options were cancelled on 18 January 2005 as the results of the open offer.
- The fair value of the options granted under 2002 Scheme in the current period measured at the date of grant (20 December 2005) totalled approximately HK\$7,017,000 (2004: HK\$1,080,000). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility:	38% based on historical volatility
Expected dividend yield:	6.88% based on historical dividends
Expected life:	10 years from grant date
Risk free interest rate:	4.18% being the approximate yield of 5-year Exchange Fund Note on the grant date

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The Black-Scholes options pricing model was developed to estimate the fair value of traded options which do not have vesting restrictions and are fully transferable. This pricing model requires the input of highly subjective assumptions including the volatility of the share price. As the Company's options are different from traded options and because changes in subjective input assumptions can materially affect the fair value estimate in the directors opinion the model does not necessarily provide a reliable single measure of the fair value of the share options.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of Shares on the date of grant and the above assumptions the computed fair value under the options granted during the year was approximately HK\$0.80 per option share.

(B) SHARE OPTIONS OF PANVA GAS

The following table discloses movements in the Panva Gas's share options during the year under Pre-GEM Listing Share Option Scheme adopted by the sole shareholdre of Panva Gas on 4 April 2001 ("Panva's Pre-GEM Listing Share Option Scheme") and share option scheme adopted by the sole shareholder of Panva Gas on 4 Apirl 2001 ("Panva's 2001 GEM Share Option Scheme"):

	Option types	Outstanding at 1.1.2005	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2005
Category 1: Directors					
Ou Yaping	Pre-GEM Listing Options	3,600,000	-	-	3,600,000
Tang Yui Man Francis	2001 GEM Options	960,000	-	-	960,000
	2004 GEM Options	3,000,000	-	-	3,000,000
Other directors of Panva Gas	Pre-GEM Listing Options	6,020,000	-	-	6,020,000
	2001 GEM Options	1,920,000	-	-	1,920,000
	2004 GEM Options	9,400,000	-	-	9,400,000
Total for directors		24,900,000	-	-	24,900,000
Category 2: Employees					
	Pre-GEM Listing Options	4,250,000	-	(1,900,000)	2,350,000
	2001 GEM Options	5,689,000	-	(1,770,000)	3,919,000
	2004 GEM Options	8,800,000	-	-	8,800,000
Total for Employees		18,739,000	-	(3,670,000)	15,069,000
All categories		43,639,000	-	(3,670,000)	39,969,000

Report of the Directors

Details of specific categories options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
Panva's Pre-GEM Listing Share Option Scheme			
Pre-GEM Listing Options	04.04.2001	01.01.2003 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
Panva's 2001 GEM Share Option Scheme			
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940
	13.11.2001	13.05.2002 – 13.02.2007	0.940
	13.11.2001	13.11.2002 – 13.02.2007	0.940
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.500
	19.11.2004	31.12.2006 – 30.03.2011	3.500
	19.11.2004	31.12.2007 – 30.03.2011	3.500

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, no option were granted, exercised or cancelled under the share option schemes, and 3,670,000 options were lapsed under the Pre-GEM Listing Share Option Scheme and 2001 GEM Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its subsidiaries or holding companies a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries or holding companies 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.

Report of the Directors

CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, the following connected transactions of the Company require disclosure in the annual report of the Company:

1. As disclosed in the circular dated 17 May 2005, Sinolink and the Company had on 7 April 2005 entered into the acquisition agreement, pursuant to which Sinolink agreed to sell, and the Company agreed to purchase, the sale shares, constituting the respective entire issued share capital of Kenson and Supreme All. Kenson and Supreme All hold 381,298,462 and 169,491,525 Panva Gas' shares respectively, representing approximately 40.47% and 17.98% of the issued share capital of Panva Gas respectively.

The consideration was HK\$1,753,231,957.10, which was equivalent to the total market value of the Panva Gas's shares held by Kenson and Supreme All respectively calculated based on the closing price of the Panva Gas's shares as stated in the Stock Exchange's quotation sheet on the valuation date (being HK\$3.30) less the deductible. The consideration was satisfied by the allotment and issue credited as fully paid to Sinolink of 2,540,915,880 consideration shares by the Company on the completion date at the issue price. Based on the issue price, the consideration shares had a total market value of approximately HK\$1,753,231,957.10 as at the valuation date.

The acquisition constituted a very substantial acquisition for the Company under the Listing Rules and would accordingly be subject to the approval of the Company's shareholders at a special general meeting of the Company.

As the acquisition involved the allotment and issue of the consideration shares by the Company, an application was made by the Company to the Stock Exchange for the listing of and permission to deal in the consideration shares to be issued by the Company on the completion date.

Sinolink, the controlling shareholder of the Company, and its associates beneficially owned approximately 62.37% of the issued share capital of the Company. Sinolink was therefore a connected person of the Company. Accordingly, the acquisition constituted a connected transaction for the Company under the Listing Rules and was subject to the approval of the independent shareholders of the Company at a special general meeting of the Company. The voting in respect of the approval of the resolutions regarding the acquisition had been conducted by way of poll. Sinolink and its associates abstained from voting on such resolutions. The resolutions were passed on 2 June 2006 at the special general meeting of the Company.

2. As disclosed in the circular dated 22 August 2005, the indirect wholly-owned subsidiary of the Company, Goodunited and Shenzhen Huishen had on 23 June 2005 entered into the equity transfer agreement, pursuant to which Shenzhen Huishen agreed to sell, and Goodunited agreed to purchase, the equity interest, constituting 30% the registered capital of Shenzhen Fuhuade, a non-wholly owned subsidiary of the Company, for a total consideration of RMB250,000,000, which was equivalent to approximately HK\$233,863,000. Sinolink Electric Power Company Limited, a wholly owned subsidiary of the Company, held the remaining 70% of the registered capital of Shenzhen Fuhuade.

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The equity transfer constituted a major and connected transaction for the Company under the Listing Rules.

Since Shenzhen Huishen was a controlling shareholder (as defined in the Listing Rules) of Shenzhen Fuhuade, an indirect subsidiary of the Company, pursuant to Rule 14A.11(1) of the Listing Rules, it was a connected person (as defined in the Listing Rules) of the Company. As such, the equity transfer which was entered into between Goodunited (an indirect subsidiary of Enerchina) and Shenzhen Huishen (a connected person of Enerchina) was a connected transaction of the Company.

3. As disclosed in the circular dated 8 September 2005, Panriver Investments Company Limited ("Panriver Investments"), a wholly-owned subsidiary of Panva Gas had on 16 August 2005 entered into the sino-foreign joint venture agreement (the "JV Agreement") with Jinan City Gas Company ("Jinan Gas") and Shenzhen Huaxinlian Investment Limited Liability Company in relation to the setting up and the operation of Shandong Panva Gas Co. Ltd. ("Shandong Panva").

According to the JV Agreement, Shandong Panva will have a registered capital of RMB400 million (equivalent to approximately HK\$384.6 million), of which Panriver Investments will contribute 48% or RMB192 million (equivalent to approximately HK\$184.6 million). The JV Agreement was legally binding and conditional upon the approval from the relevant PRC authorities and upon obtaining the relevant independent shareholders' approval (or waivers thereof).

Jinan Gas was a connected person of Panva Gas since it is a substantial shareholder of Jinan Panva, which was an indirect non-wholly owned subsidiary of the Company. Accordingly, the entering into of the JV Agreement and the transactions contemplated under the JV Agreement constitutes a discloseable and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules.

The independent non-executive Directors confirm that the transactions have been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the register of substantial shareholders (other than the Directors or chief executive of the Company as disclosed above) maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:–

Long positions and short positions in Shares and underlying Shares in the Company

Name of shareholders	Capacity	Aggregate interest	Approximate percentage of the issued share capital
Asia Pacific	Interest of controlled corporation	3,617,895,635 (Note 1)	74.79%
Sinolink	Beneficial owner and interest of controlled corporation	3,617,895,635 (Note 2)	74.79%
Smart Orient	Beneficial owner	223,990,353	4.63%
Warburg Pincus & Co.	Interest of controlled corporation	477,524,377 (Note 3)	9.87%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.36%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.36%
Atlantic Cay International Limited	Beneficial owner	404,548,779 (Note 3)	8.36%

Notes:

1. Asia Pacific is interested in approximately 52.15% in Sinolink and it is deemed to be interested in all the Shares held by Sinolink.
2. This number of Shares represents the aggregate of: (a) 3,393,905,282 Shares held directly by Sinolink; and (b) the number of Shares in which Smart Orient is interested as disclosed above.
3. Warburg Pincus & Co. ("WP") is the general partner of the limited partnerships Warburg Pincus Equity Partners, L.P. ("WPE") and Warburg Pincus Ventures International, L.P. ("WPV"), and is deemed to have an interest in all the Shares held by these companies. These Shares represent the aggregate of the Shares held by the funds managed by WP and all the Shares held by Atlantic Cay.

Report of the Directors

WPE is interested in 50% of the issued share capital of Atlantic Cay and is deemed to be interested in all the Shares held by Atlantic Cay.

WPV is interested in 50% of issued share capital of Atlantic Cay and it is deemed to be interested in all the Shares held by Atlantic Cay.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2005, 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year the five largest customers of the Group in aggregate accounted for about 51.01% of the Group's turnover, sales to the largest customer accounted for 45.81% of the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 86.40% of its purchases for the year. Purchases from the largest supplier accounted for about 24.49% of its total purchases.

At no time during the year, none of the Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) have an interest in the largest customers or any of the five largest suppliers of the Group for the year ended 31 December 2005.

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$814,000.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director, or any of his associates, and executive is involved in dealing his own remuneration.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 32 to the financial statements and page 17 of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws although there is no restriction against such rights under the laws in Bermuda.

Report of the Directors

SUFFICIENCY OF 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.

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Details of the Audit Committee and Remuneration Committee are set out in the Corporate Governance Report on pages 27 to 34.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

AUDITORS

A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

OU Yaping
Chairman

Hong Kong, 24 April 2006