

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 49 and 25 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 51 of the annual report.

An interim dividend of HK\$0.03 per Share and special interim dividend of HK\$0.033 per Share amounting to HK\$148,142,000 was paid to the shareholders during the year.

On 22 March 2006, the Board declared a special interim dividend by way of a distribution in respect of Enerchina shares held by the Company in proportion of 5 Enerchina's shares for every 10 Shares held by the shareholders of the Company. A total of 1,422,214,340 Enerchina's shares with aggregate market value worth HK\$995,550,000 were distributed to the shareholders of the Company on 13 April 2006.

The final dividend of HK\$0.035 (2004: HK\$0.03) per Share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting of the Company ("AGM").

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2005, amounted to HK\$2,749,971,000 (2004: HK\$580,385,000).

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2005 is set out page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 20 to the financial statements.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 22 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 37 to the financial statements.

DIRECTORS

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

Executive Directors:

Ou Yaping (*Chairman*)

Tang Yui Man Francis (*Chief Executive Officer*)

Chen Wei

Law Sze Lai

Independent non-executive Directors:

Li Zhi Xiang (retired on 18 May 2005)

Davin A. Mackenzie

Tian Jin (appointed on 18 May 2005)

Xin Luo Lin

In accordance with Bye-law 86(2) of the bye-laws of the Company (“Bye-laws”), Mr. Tian Jin will retire from office at the forthcoming AGM, and being eligible, would offer himself for re-election.

In accordance with Bye-law 87(1) of the Bye-laws, Messrs Chen Wei, Law Sze Lai and Xin Luo Lin shall retire by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election.

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.

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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 of Hong Kong Limited (the "Stock Exchange"), were as follows:

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

Name of Directors	Capacity	Interest in Shares		Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of issued share capital of the Company at 31.12.2005
		Family interest	Corporate interest				
Chen Wei	Beneficial owner	-	-	-	12,000,000	12,000,000	0.46%
Law Sze Lai	Beneficial owner	-	-	-	8,000,000	8,000,000	0.30%
Davin A. Mackenzie	Beneficial owner	-	-	-	2,000,000	2,000,000	0.08%
Ou Yaping	Joint interest and interest of controlled corporation	6,475,920	1,374,222,000 (Note)	1,380,697,920	-	1,380,697,920	52.40%
Tang Yui Man Francis	Beneficial owner	-	-	-	19,000,000	19,000,000	0.72%
Xin Luo Lin	Beneficial owner	-	-	-	2,000,000	2,000,000	0.08%

Note:

These 1,374,222,000 Shares are held by Asia Pacific Promotion Limited ("Asia Pacific"), a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping, Chairman of the Company.

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

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(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		Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest/ (short positions)	Approximate percentage of the issued share capital of the associated corporation at 31.12.2005
			Personal interest	Corporate interest				
Chen Wei	Panva Gas	Beneficial owner	2,160,000	-	2,160,000	8,040,000	10,200,000	1.08%
Davin A. Mackenzie	Enerchina	Beneficial owner	-	-	-	2,288,000	2,288,000	0.05%
Law Sze Lai	Enerchina	Beneficial owner	510,000	-	510,000	-	510,000	0.01%
Ou Yaping	Enerchina	Beneficial owner and interest of controlled corporations	-	3,617,895,635	3,617,895,635	2,288,000	3,620,183,635	74.83%
	Panva Gas	Beneficial owner and interest of controlled corporations	-	575,806,587	575,806,587	3,600,000	579,406,587	61.49%
			-	(19,230,769)	(19,230,769)	-	(19,230,769)	(2.04%)
	Asia Pacific	Beneficial owner	2	-	2	-	2	100.00%
Tang Yui Man	Enerchina	Beneficial owner	-	-	-	22,880,000	22,880,000	0.47%
Francis	Panva Gas	Beneficial owner	3,440,000	-	3,440,000	3,960,000	7,400,000	0.79%
Xin Luo Lin	Enerchina	Beneficial owner	-	-	-	2,288,000	2,288,000	0.05%

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Notes:

1. The 3,617,895,635 shares in Enerchina represent the aggregate of: (i) the 3,393,905,282 shares held by the Company; and (ii) the 223,990,353 shares held by Smart Orient Investments Limited (“Smart Orient”), a wholly-owned subsidiary of the Company (Mr. Ou Yaping through his wholly-owned company, Asia Pacific, holds approximately 52.15% of the issued share capital of the Company and is therefore deemed to be interested in such shares in which the Company is interested).
2. The 575,806,587 shares in Panva Gas represent the aggregate of (i) 401,233,462 shares held by Kenson Investment Limited (“Kenson”) and 169,491,525 shares held by Supreme All Investments Limited (“Supreme All”). Kenson and Supreme All are wholly-owned subsidiaries of Enerchina. 74.79% interests of Enerchina were held by the Company as at 31 December 2005 and 52.15% interests of the Company 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 in Panva Gas.
3. Kenson is under an obligation to transfer 19,230,769 shares in 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.

Details of the directors’ interests in share options granted by the associated corporations are set out under the heading “Directors’ right to acquire Shares”.

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 Shares, 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 options at 1.1.2005	Number of Shares subject to outstanding options at 31.12.2005	Approximate percentage of issued share capital of the Company at 31.12.2005
Chen Wei	14.03.2002	01.12.2002-01.12.2005	0.560	6,400,000	-	-
	13.01.2005	31.12.2005-24.05.2012	1.126	-	3,600,000	0.14%
	13.01.2005	30.06.2006-24.05.2012	1.126	-	3,600,000	0.14%
	13.01.2005	31.12.2006-24.05.2012	1.126	-	4,800,000	0.18%
Law Sze Lai	13.01.2005	31.12.2005-24.05.2012	1.126	-	2,400,000	0.09%
	13.01.2005	30.06.2006-24.05.2012	1.126	-	2,400,000	0.09%
	13.01.2005	31.12.2006-24.05.2012	1.126	-	3,200,000	0.12%
Davin A. Mackenzie	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%
Tang Yui Man Francis	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	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%

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Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. These options represent personal interest held by the Directors as beneficial owners.
3. During the year, 43,000,000 options were granted to the Directors, 6,400,000 options were exercised by the Director and no options held by the Directors were lapsed or cancelled.

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

Name of Directors	Name of associated corporation	Date of grant	Exercise period	Exercise price <i>HK\$</i>	Number	Number	Approximate percentage of the issued share capital of the associated corporation
					of shares options held at 1.1.2005	of shares options held at 31.12.2005	
Chen Wei	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%
		13.11.2001	13.11.2002-13.02.2007	0.940	1,440,000	1,440,000	0.15%
		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%
Davin A. Mackenzie	Enerchina	20.10.2004	20.10.2005-19.10.2015	0.500	2,288,000	2,288,000	0.05%
Ou Yaping	Enerchina	09.06.2004	09.06.2004-08.06.2014	0.440	2,288,000	2,288,000	0.05%
Tang Yui Man Francis	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%
	Enerchina	09.06.2004	09.06.2004-08.06.2014	0.440	22,880,000	22,880,000	0.47%
		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%		
Xiu Luo Lin	Enerchina	09.06.2004	09.06.2004-08.06.2014	0.440	2,288,000	2,288,000	0.05%

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.

SHARE OPTION SCHEMES OF THE GROUP

(A) The Company's Share Option Scheme

(a) 1998 Share Option Scheme

Pursuant to a share option scheme approved by resolutions of the shareholders of the Company dated 11 May 1998 (the "Old Scheme"); share options were granted to Directors and employees of the Company or its subsidiaries for recognition of their contributions to the Group. The exercise price of the share options would be determined at the higher of 80% of the average closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the share options and the nominal value of the Shares. The share options granted should be taken up within 28 days of the date of grant with a nominal consideration of HK\$1 payable on the date of grant. The New Scheme (as defined below) replaced the Old Scheme and there will be no new share options granted under the Old Scheme in the future 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 Old Scheme shall remain in full force and effect.

Under the Old 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 would not exceed 25% of the total Shares in issue or to be issued under the Old Scheme.

At 31 December 2005, no outstanding options might be exercisable and no further options would be offered or granted under the Old Scheme.

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(b) *2002 Share Option Scheme*

Pursuant to a share option scheme approved by resolutions of the shareholders of the Company dated 24 May 2002 (the “New Scheme”); share options were granted to Directors and employees of the Company or its subsidiaries for recognition of their contributions to the Group. The exercise price of the share options will be determined at the higher of the average of closing prices on the Stock Exchange on the five trading days immediately preceding on the date of grant, the closing price of the Shares on the Stock Exchange on the date of grant and the nominal value of the Shares. The share options granted must be taken up within 28 days of the date of grant.

At 31 December 2005, a total of 112,840,000 Shares (representing approximately 3.96% 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 New Scheme.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the date of grant.

The total number of Shares in respect of which options may be granted under the New Scheme are not permitted to exceed 10% of the Shares in issue at the date of approval of the New Scheme, 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 12-month period is not permitted to exceed 1% of the Shares in issue at any point in time, without prior approval from the Company’s shareholders.

Consideration of HK\$1 is payable on the grant of an option.

Additional information in relation to the Company’s share option schemes are set out in note 42 to the financial statements.

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

	Option types	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2005
Category 1: Directors						
Chen Wei	2002A	6,400,000	-	(6,400,000)	-	-
	2005	-	12,000,000	-	-	12,000,000
Law Sze Lai	2005	-	8,000,000	-	-	8,000,000
Davin A. Mackenzie	2005	-	2,000,000	-	-	2,000,000
Tang Yui Man Francis	2005	-	19,000,000	-	-	19,000,000
Xin Luo Lin	2005	-	2,000,000	-	-	2,000,000
Total for Directors		<u>6,400,000</u>	<u>43,000,000</u>	<u>(6,400,000)</u>	<u>-</u>	<u>43,000,000</u>
Category 2: Employees						
	2004	24,850,000	-	(15,060,000)	(750,000)	9,040,000
	2005	-	61,800,000	-	(1,000,000)	60,800,000
Total for employees		<u>24,850,000</u>	<u>61,800,000</u>	<u>(15,060,000)</u>	<u>(1,750,000)</u>	<u>69,840,000</u>
All categories		<u>31,250,000</u>	<u>104,800,000</u>	<u>(21,460,000)</u>	<u>(1,750,000)</u>	<u>112,840,000</u>

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Details of specific categories of share options are as follows:

Option types	Date of grant	Exercise period	Exercise price <i>HK\$</i>
Old Scheme:			
2002A	14.03.2002	01.12.2002 - 01.12.2005	0.560
New Scheme:			
2004	01.01.2004	01.06.2004 - 31.05.2008	0.760
	01.01.2004	01.01.2005 - 31.05.2008	0.760
	01.01.2004	01.06.2005 - 31.05.2008	0.760
	01.01.2004	01.01.2006 - 31.05.2008	0.760
2005	13.01.2005	31.12.2005 - 24.05.2012	1.126
	13.01.2005	30.06.2006 - 24.05.2012	1.126
	13.01.2005	31.12.2006 - 24.05.2012	1.126

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The closing price of the Company shares immediately before 13 January 2005 the date of grant of the 2005 options was HK\$1.12.
3. The weighted average share price at the date of exercise for share options during the year was at a range of HK\$1.12 to HK\$2.05.
4. During the year, 104,800,000 options were granted under the New Scheme. The estimated fair value of the options granted on the date is HK\$0.31 per option.
5. During the year, 1,750,000 options were lapsed under the New Schemes. No options were cancelled under the share option schemes.

6. The fair value of the options granted under the New Scheme in the current period measured at the date of grant (13 January 2005) totalled approximately HK\$32,359,000. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility:	50% p.a
Expected dividend yield:	4.93% p.a
Expected life:	4.5 years
Risk free interest rate:	2.62% being the approximate yield of 5-year Exchange Fund Note on the grant date
Rate of leaving service:	5% p.a

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 estimated fair value under the options granted during the year was approximately HK\$0.31 per option share.

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(B) Share Options of Enerchina

The following table discloses movements in the Enerchina's share options during the year under the share option scheme adopted by shareholders of Enerchina on 26 July 1993 ("Enerchina's 1993 Scheme") and share option scheme adopted by the shareholder of Enerchina on 24 May 2002 ("Enerchina's 2002 Scheme"):

		Outstanding	Granted	Exercised	Resigned as Director	Lapsed	Cancelled	Outstanding
	Option types	at 1.1.2005	during the year	during the year	during the year	during the year	during the year	at 31.12.2005
Category 1: Directors								
Davin A. Mackenzie	Enerchina's 2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Ou Yaping	Enerchina's 2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Tang Yui Man Francis	Enerchina's 2002 Scheme	22,880,000	-	-	-	-	-	22,880,000
Xin Luo Lin	Enerchina's 2002 Scheme	2,288,000	-	-	-	-	-	2,288,000
Other directors of Enerchina	Enerchina's 1993 Scheme	26,250,000	-	-	-	(26,250,000)	-	-
	Enerchina's 2002 Scheme	32,168,000	15,000,000	-	(5,000,000)	-	-	42,168,000
Total for directors		88,162,000	15,000,000	-	(5,000,000)	(26,250,000)	-	71,912,000
Category 2: Other participant								
Total for other participant	Enerchina's 2002 Scheme	-	-	-	5,000,000	(5,000,000)	-	-
Category 3: Employees								
Total for employees	Enerchina's 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

Details of specific categories options are as follows:

Option types	Date of grant	Exercise period	Exercise price <i>HK\$</i>
Enerchina's 1993 Scheme	24.05.2000	24.05.2000 - 23.05.2010	0.55
Enerchina's 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:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The closing price of the shares of Enerchina immediately before 20 December 2005, the date of grant 2005 options under Enerchina's 2002 Scheme was HK\$0.80.
3. During the year ended 31 December 2005, the weighted average share price of Enerchina at the date of exercise of the share options was a range of HK\$0.78 to HK\$0.86.
4. During the year, 15,000,000 options were granted and 5,733,328 options were exercised under the share option schemes of Enerchina.
5. During the year, 31,250,000 options were lapsed under the share option schemes of Enerchina and 2,100,000 options were cancelled on 18 January 2005 as the results of the open offer.
6. The fair value of the options granted under Enerchina's 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

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.

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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 Enerchina's 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.

(C) 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 resolutions of the sole shareholder of Panva Gas on 4 April 2001 ("Panva's Pre-GEM Listing Share Option Scheme") and share option scheme adopted by the resolutions of sole shareholder of Panva Gas on 4 April 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					
Chen Wei	Pre-GEM Listing Options	3,600,000	-	-	3,600,000
	2001 GEM Options	1,440,000	-	-	1,440,000
	2004 GEM Options	3,000,000	-	-	3,000,000
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	2,420,000	-	-	2,420,000
	2001 GEM Options	480,000	-	-	480,000
	2004 GEM Options	6,400,000	-	-	6,400,000
Total for directors		<u>24,900,000</u>	<u>-</u>	<u>-</u>	<u>24,900,000</u>
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		<u>18,739,000</u>	<u>-</u>	<u>(3,670,000)</u>	<u>15,069,000</u>
All categories		<u>43,639,000</u>	<u>-</u>	<u>(3,670,000)</u>	<u>39,969,000</u>

Details of specific categories of options are as follows:

Option types	Date of grant	Exercise period	Exercise price <i>HK\$</i>
Panva's Pre-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 Old 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 Old 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 options were granted, exercised or cancelled under the share option schemes of Panva Gas, and 3,670,000 options were lapsed under Panva's Pre-GEM Listing Share Option Scheme and Panva's 2001 GEM Share Option Scheme.

Save as disclosed above, none of the Directors, chief executives nor their respective associates (as defined in the Listing Rules) had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options schemes disclosed above, at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or the chief executive or 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.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the register of substantial shareholders (other than the Directors or chief executives 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	Interest in Shares	Approximate percentage of the Company's issued share capital at 31.12.2005
Asia Pacific	Beneficial owner	1,374,222,000 <i>(Note 1)</i>	52.15%
Deutsche Bank Aktiengesellschaft	Security interests in Shares	158,694,000	6.02%
The Children's Investment Fund Management (UK) LLP	Investment manager	159,384,000	6.05%
The Children's Investment Master Fund	Beneficial owner	159,384,000	6.05%
Value Partners Limited	Investment manager	157,032,000 <i>(Note 2)</i>	5.96%
Cheah Cheng Hye	Interest of controlled corporation	157,032,000 <i>(Note 2)</i>	5.96%

Notes:

1. The 1,374,222,000 Shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ou Yaping, Chairman of the Company.
2. These 157,032,000 Shares are held by Value Partners Limited, a company which is held by 32.77% by Mr. Cheah Cheng Hye. Accordingly, Mr. Cheah Cheng Hye is deemed to be interested in these Shares.

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.

CONNECTED TRANSACTIONS

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 announcement dated 28 June 2005, the Company's subsidiary, Shenzhen Mangrove West Coast Property Development Co., Ltd. as vendor (the "Vendor") had on the same date entered into the following provisional agreements:
 - i. the 1st provisional agreement with Powerjoy Limited ("Powerjoy") as purchaser whereby Powerjoy agreed to purchase from the Vendor the 1st property at Flat A, 28/F, Block 1 Unit 9 of the Mangrove West Coast Development for a consideration of HK\$9,321,429;
 - ii. the 2nd provisional agreement with Ms. Law Ling as purchaser whereby Ms. Law Ling agreed to purchase from the Vendor the 2nd property at Flat A, 28/F, Block 1 Unit 7 of the Mangrove West Coast Development for a consideration of HK\$4,914,286;
 - iii. the 3rd provisional agreement with Ms. Law Sze Yungang as purchaser whereby Ms. Law Sze agreed to purchase from the Vendor the 3rd property at Flat B, 28/F, Block 1 Unit 6 of the Mangrove West Coast Development for a consideration of HK\$4,900,000;
 - iv. the 4th provisional agreement with Mr. Lu Yungang ("Mr. Lu") as purchaser whereby Mr. Lu agreed to purchase from the Vendor the 4th property at Flat A, 12/F, Block 1 Unit 3 of the Mangrove West Coast Development for a consideration of HK\$2,778,572; and
 - v. the 5th provisional agreement with Plot Holdings Limited ("Plot Holdings") as purchaser whereby Plot Holdings agreed to purchase from the Vendor the 5th property at Flat A, 29/F, Block 3 Unit 4 of the Mangrove West Coast Development for a consideration of HK\$5,557,143.

REPORT OF THE DIRECTORS

Powerjoy, a company which is owned by Mr. Xiang Ya Bo and his spouse Ms. Wu Hang Wa. Mr. Xiang Ya Bo, is an executive director of Enerchina. Therefore, Powerjoy is an associate of Mr. Xiang Ya Bo and his spouse Ms. Wu Hang Wa and thus a connected person under the Listing Rules. Ms. Law Ling and Ms. Law Sze are the daughters of Mr. Law Sze Lai, an executive Director of the Company and thus Ms. Law Ling and Ms. Law Sze are associates of the Company and therefore connected persons under the Listing Rules. Mr. Lu is an independent non-executive director of Enerchina, and thus Mr. Lu is a connected person under the Listing Rules. However, Enerchina and Mr. Lu has confirmed that in reference to Rule 3.13(4) of the Listing Rules, Mr. Lu's independency as an independent non-executive director of Enerchina would not be impaired as a result of the transaction contemplated herein with the Company. Plot Holdings is a company owned by Mr. Ou Yafei, the brother of Mr. Ou Yaping, who is the Chairman of the Board and thus Plot Holdings is an associate of Mr. Ou Yaping and is therefore a connected person under the Listing Rules. Accordingly, transactions between members of the Group and the Company constitutes connected transactions for the Company under Chapter 14A of the Listing Rules. However, since the provisional agreements are on normal commercial terms and the amounts whether individual or in aggregate under each of the provisional agreements are less than 2.5% of each of the appropriate percentage ratios calculated in accordance with the Listing Rules, the provisional agreements are only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules and are exempted from the independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

2. As disclosed in the circular dated 22 August 2005, the indirect wholly-owned subsidiary of the Company, Goodunited Holdings Limited ("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 Electric Power Company Limited ("Shenzhen Fuhuade"), a non-wholly owned subsidiary of the Company, for a total consideration of RMB250,000,000, which is equivalent to approximately HK\$233,863,000. Sinolink Electric Power Company Limited, a wholly owned subsidiary of Enerchina, holds the remaining 70% of the registered capital of Shenzhen Fuhuade.

The equity transfer constitutes a major and connected transaction for the Company under the Listing Rules. Since Shenzhen Huishen is 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 is 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 the Company) and Shenzhen Huishen (a connected person of the Company) is 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 is 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 is a connected person of Panva Gas since it is a substantial shareholder of Jinan Panva, which is an indirect non-wholly owned subsidiary of Panva Gas. 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.

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$1,248,000.

PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group’s largest supplier accounted for approximately 26.4% of the Group’s total purchases and the Group’s largest five suppliers accounted for approximately 71.5% of the Group’s total purchases.

During the year, the Group’s largest customer accounted for approximately 27.09% of the Group’s total sales and the Group’s largest five customers accounted for 31.8% of the Group’s total sales.

None of the Directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company’s issued share capital, had an interest in the share capital of any of the five largest suppliers and customers.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of 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 share option schemes as an incentive to directors and eligible employees, details of the schemes is set out in note 42 to the financial statements and under the heading "Directors' right to acquire Shares".

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 48 to the financial statements.

AUDITORS

The financial statements of the Company for the year ended 31 December 2005 have been audited by Messrs. Deloitte Touche Tohmatsu. 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