

# DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31 December 2005.

## 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 and Appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 74.

The Directors recommend the payment of a final dividend of HK\$4.81 cents (equivalent to approximately RMB5.00 cents) per share to the shareholders on the register of members on 23 May 2006. The total dividend amount is approximately RMB45,440,000, and the retention of the remaining profit for the year is approximately RMB257,678,000.

## Financial Summary

Details of the summary of the published financial information of the Group for the past seven years are set out on page 19.

## Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB1,050,645,000 has been incurred in acquiring property, plant and equipment.

During the year, the Group revaluated its properties, resulting in a revaluation deficit amounting to RMB370,000.

Details of the movements during the year in property, plant and equipment of the Group are set out in Notes 14 and 16 to the Financial Statements.

## Share Capital and Bonds

Details of movements in the share capital and bonds of the Company are set out in Notes 35 and 37 to the Financial Statements respectively.

## Reserves

Details of movements during the year in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on pages 77-78.

## Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 34 to the Financial Statements.

## Charitable Donations

Charitable donations by the Group for 2005 amounted to RMB698,000 (2004: RMB56,000).

## Directors' Emoluments

Details of Directors' emoluments are set out in Note 10 to the Financial Statements.

## Directors

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

### 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  
Yien Yu Yu, Catherine  
Kong Chung Kau (appointed on 31 March 2005)  
Xu Liang (resigned on 31 March 2005)

In accordance with Article 116 of the Company's Articles of Association, Messrs Yang Yu, Chen Jiacheng, Zhao Jinfeng, Yu Jianchao and Cheung Yip Sang 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 entered into 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.

The Company has received an 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.

As at 31 December 2005, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).



## Disclosure of Interests

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

As at 31 December 2005, the interests 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 ("Model Code"), 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	Total interests pursuant to share options	Total aggregate interests in underlying shares and shares	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	2,594,000 (Note 2)	384,486,000 (Note 1)	–	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Ms. Zhao Baoju ("Ms. Zhao")	Interest of spouse and interest of controlled corporation	–	384,486,000 (Note 1)	2,594,000 (Note 2)	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Mr. Yang Yu	Beneficial owner	–	–	–	–	1,000,000	1,000,000	0.11%

Notes:

1. The two references to 384,486,000 shares relate to the same block of shares. Such shares are held by XinAo Group International Investment Limited ("XGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang according to the SFO.
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 according to 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 2005, 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 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 2005	Number of options exercised as at 31 December 2005	Number of shares subject to outstanding options as at 31 December 2005	Approximate percentage of the Company's total issued share capital
Mr. Wang	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 2)	700,000 (Note 3)	0.08%
Ms. Zhao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(1,600,000) (Note 2)	700,000 (Note 3)	0.08%
Mr. Yang Yu	14.02.2003	15.08.2003 – 14.02.2013	2.265	3,350,000	(2,350,000) (Note 2)	1,000,000	0.11%
Mr. Chen Jiacheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,300,000	(2,300,000) (Note 2)	–	0%
Mr. Zhao Jinfeng	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,775,000	(1,775,000) (Note 2)	–	0%
Mr. Qiao Limin	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,025,000	(1,025,000) (Note 2)	–	0%
Mr. Jin Yongsheng	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 2)	–	0%
Mr. Yu Jianchao	14.02.2003	15.08.2003 – 14.02.2013	2.265	2,100,000	(2,100,000) (Note 2)	–	0%
Mr. Cheung Yip Sang	14.02.2003	15.08.2003 – 14.02.2013	2.265	1,887,500 (Note 4)	(1,887,500) (Note 2)	–	0%
Mr. Cheng Chak Ngok	14.02.2003	15.08.2003 – 14.02.2013	2.265	450,000	(450,000) (Note 2)	–	0%
<b>Total</b>				<b>17,287,500</b>	<b>(15,587,500)</b>	<b>1,700,000</b>	

#### Notes:

- The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- The weighted average closing price per share immediately before the date on which the options were exercised was HK\$4.878.
- 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 according to the SFO.
- 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 and an employee of the Company. Mr. Cheung Yip Sang is taken to be interested in the underlying shares held by his spouse under the SFO.

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.

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 2005, 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	Total interests pursuant to share options	Approximate aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital
		Personal interests	Corporate interests	Family interests				
Mr. Wang	Beneficial owner and interest of controlled corporation	2,594,000 (Note 2)	384,486,000 (Note 1)	–	387,080,000	700,000 (Note 3)	387,780,000	42.88%
Ms. Zhao	Interest of spouse and interest of controlled corporation	–	384,486,000 (Note 1)	2,594,000 (Note 2)	387,080,000	700,000 (Note 3)	387,780,000	42.88%
XGII (formerly known as Easywin Enterprises Limited)	Beneficial owner	–	384,486,000 (Note 1)	–	384,486,000	–	384,486,000	42.52%
The Capital Group Companies, Inc.	Investment manager	–	91,587,000	–	91,587,000	–	91,587,000	10.13%
Penta Investment Advisers Ltd.	Investment manager	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
Mr. Michael William Moore	Interest of controlled corporation	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
Mr. John Zwaanstra	Interest of controlled corporation	–	45,589,770 (Note 4)	–	45,589,770	–	45,589,770	5.04%
FMR Corp.	Investment manager	–	45,279,000	–	45,279,000	–	45,279,000	5.01%

Notes:

- 1 The three references to 384,486,000 shares relate to the same block of shares. Such shares are held by XGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
- 2 Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in these shares held by Mr. Wang according to the SFO.
- 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 according to the SFO.
- 4 The three references to 45,589,770 shares relate to the same block of shares. Such shares are held by Penta Investment Advisers Ltd., which is beneficially owned as to 50% by Mr. Michael William Moore and 50% by Mr. John Zwaanstra, in the capacity of an investment manager.

Save as disclosed above, as at 31 December 2005, 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 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.

## Share Option Scheme

Details of the share option scheme are set out in Note 39 to the Financial Statements and the section headed “Directors’ rights to acquire shares” in this report.

No share option was granted, lapsed or cancelled during the year.

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

## Directors’ and Controlling Shareholders’ 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 Listing Rules:

### Non-exempt continuing connected transactions

On 31 January 2005, those Wang Family Companies (note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group.

On 31 January and 1 April 2005, Langfang Xiniao Gas Company Limited (“Langfang Xiniao”), an indirect wholly-owned subsidiary of the Company, entered into contracts for a term of three months and 2.75 years commencing from 1 January 2005 and 1 April 2005 with Langfang Xiniao Property Management Company Limited (“Langfang Property Management”) (note 1) and Xiniao Group Elephant Club Hotel Company Limited (“Elephant Club”) (note 1) respectively, which provide property management services to Langfang Xiniao for two office buildings situated in Langfang City with service fees of RMB345,000 for 3 months and RMB879,000 per annum respectively.

On 30 September 2005, Langfang Xiniao Gas Equipment Company Limited (“Langfang Equipment”), an indirect wholly-owned subsidiary of the Company, entered into a contract for a term of one year commencing from 1 October 2005 with Elephant Club, which provides property management service to Langfang Equipment’s factory and office building situated in Langfang City with an annual service fee RMB120,000.

On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby each of the Group and the Wang Family Companies has agreed to lease to each other certain properties owned by the Group and the Wang Family Companies respectively.

On 31 January 2005, Langfang Xiniao leased a staff quarter situated in Langfang City to Langfang Xiniao Property Development Company Limited (“Langfang Property”) (note 1) and another staff quarter also situated in Langfang City to Xiniao Group Company Limited (“XGCL”) (note 1) and entered into contracts with each of them for a term of one year commencing from 1 January 2005 with annual rentals of RMB330,000 and RMB436,000 respectively.

On 31 January 2005, Langfang Xiniao entered into a property leasing agreement with XGCL in relation to the leasing of the office building situated in Langfang City to XGCL. The annual rental is RMB1,039,000 plus a reimbursement of management fee of RMB264,000 per annum. The contract term is for three years commencing from 1 January 2005.

On 7 February 2005, Xiniao Gas Investment Group Limited, a direct wholly-owned subsidiary of the Company, entered into a property leasing agreement with Enric Investment Group Limited (“Enric Investment”) (note 1) in relation to the leasing of the office unit situated in Hong Kong to Enric Investment. The annual rental is HK\$304,000 (RMB317,000) plus a reimbursement of management fee and other expenses of RMB86,000 in 2005. The contract term is for three years commencing from 1 February 2005.

On 31 January 2005, the Group and the Wang Family Companies entered into an agreement, whereby the Group has agreed to purchase and the Wang Family Companies have agreed to sell, in the ordinary course of its business, gas-related machinery and equipment manufactured by the Wang Family Companies (including but not limited to gas refueling stations, gas refueling daughter station trailers, storage tanks, CNG and LNG trailers and compressors).



**Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions (continued)**

**Non-exempt continuing connected transactions (continued)**

During the year, the subsidiaries of the Company, including Bengbu Xinao Gas Company Limited ("Bengbu Xinao"), Changsha Xinao Gas Company Limited, Zhuzhou Xinao Gas Company Limited ("Zhuzhou Xinao"), Lianyungang Xinao Gas Company Limited, Luan Xinao Gas Company Limited, Haining Xinao Gas Company Limited ("Haining Xinao"), Haining Xinao Gas Development Company Limited, Xiangtan Xinao Gas Company Limited, Xinao Gas Development Company Limited ("Xinao Gas Development"), Xinao Energy Logistics Company Limited, Bozhou Xinao Gas Company Limited, Beijing Xinao Jinggu Gas Company Limited, Jinhua Xinao Gas Development Company Limited, Chaohu Xinao Gas Development Company Limited, Qingdao Xinao Xincheng Gas Company Limited, Shangqiu Xinao Gas Company Limited, Chuzhou Xinao Gas Company Limited, Changzhou Xinao Gas Engineering Company Limited ("Changzhou Gas Engineering"), Quzhou Xinao Gas Company Limited, Liaocheng Xinao Gas Company Limited, Taixing Xinao Gas Company Limited, Xinghua Xinao Gas Company Limited, Huaian Xinao Gas Company Limited, Zouping Xinao Gas Company Limited, Haian Xinao Gas Company Limited, Laiyang Xinao Gas Company Limited, Yangzhou Xinao Gas Company Limited, Xinao Gas Engineering Company Limited, Zhanjiang Xinao Gas Company Limited ("Zhanjiang Xinao"), Langfang Xinao, Xinxiang Xinao Gas Company Limited ("Xinxiang Xinao") and Tongliao Xinao Gas Company Limited, purchased natural gas track trailers, pressure regulating and gas equipments from Shijiazhuang Enric Gas Machinery Company Limited ("Shijiazhuang Enric") (note 1), Enric (Bengbu) Compressor Company Limited ("Enric Bengbu") (note 1) and Enric (Langfang) Energy Equipment Integration Company Limited ("Enric Langfang") (note 1) in order to operate the distribution of natural gas business. The total considerations of the contracts are RMB118,572,000.

The independent non-executive Directors have reviewed the above transactions and confirmed that, in their opinion:

1. The transactions have been entered into by the Group in the ordinary and usual course of business of the Group;
2. The transactions have been entered into on normal commercial terms, or where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or from independent third parties; and
3. The transactions have been entered into in accordance with the terms of the agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions *(continued)*

### Non-exempt connected transactions

On 10 June 2005, Langfang Equipment has entered into a sales and purchase agreement with XGCL to acquire land and factory complex located in Langfang City, Hebei Province for an aggregate consideration of RMB14,500,000. Details of the transaction were disclosed in the Company's announcement dated 10 June 2005.

On 27 October 2005, Xinao Gas China Investment Limited ("Xinao China BVI"), a wholly-owned subsidiary of the Company and the majority equity interest holder of Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao"), entered into an agreement with Shijiazhuang Gas Group Company Limited ("Shijiazhuang Gas") (note 2), a minority equity interest holder of Shijiazhuang Xinao, and Hebei Xindi Urban Construction Engineering Company Limited ("Hebei Xindi"), in relation to the registered capital increase, whereby each of the parties agreed to inject capital into Shijiazhuang Xinao. After the completion of the registered capital increase, Xinao China BVI, Shijiazhuang Gas and Hebei Xindi (which holds its 11% equity interest for Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company) own 49%, 40% and 11% equity interest of Shijiazhuang Xinao respectively, and the Group have an effective interest of 60% in Shijiazhuang Xinao, which remains a subsidiary of the Company. The transaction is expected to be completed in 2006. Shijiazhuang Xinao was first established in 2002, and after two successful years of operations, the management of Shijiazhuang Xinao decided to initialise the second phase of development, which comprises of, among others, the acquisition of coal gas facilities and operations in Shijiazhuang and conversion of such facilities and operations into natural gas compatible. It was decided that the second phase of development of Shijiazhuang Xinao will be funded by way of increase in its registered capital. Details of the transaction were disclosed in the Company's announcement dated 27 October 2005.

On 23 December 2005, Xinao Gas Development entered into agreements with Langfang Property to acquire residential and office units situated in Langfang City, Hebei Province, for an aggregate consideration of RMB19,149,000. On the same date, Bengbu Xinao entered into agreements with Bengbu Xinao Property Company Limited ("Bengbu Property") (note 1) to acquire residential and office units situated in Bengbu City, Anhui Province, for an aggregate consideration of RMB12,883,000. Details of the transactions were disclosed in the Company's announcement dated 23 December 2005.

### Exempted connected transactions

On 6 January 2003, Haining Xinao leased a gas station from Haining City Wantong Gas Company Limited ("Haining Wantong") (note 2), a minority equity interest holder of Haining Xinao, and signed a contract without fixed term with an annual rent of RMB50,000.

During the year, Xinao Gas Development provided gas connection services to Langfang Property, Elephant Club and Beijing City Changping Municipal Economic Development Corporation ("Changping Economic Development") (note 2), a minority equity interest holder of one of the Company's subsidiary, with the contract sum of RMB6,290,000, RMB105,000 and RMB18,000 respectively.

During the year, Beijing Xinao Huading Trading Company Limited, an indirect wholly-owned subsidiary of the Company, sold materials to Langfang Property and XGCL for considerations of RMB57,000 and RMB71,000 respectively.

During the year, Bengbu Xinao sold materials to Xinao Xinneng (Beijing) Technology Company Limited ("Xinneng Beijing") (note 1) for a consideration of RMB20,000.

During the year, Bengbu Xinao purchased materials from Shijiazhuang Chemical Machinery Company Limited ("Shijiazhuang Machinery") (note 1) for a consideration of RMB2,747,000.

During the year, Changzhou Xinao Gas Engineering Company Limited ("Changzhou Gas Engineering"), a subsidiary of the Company, purchased residential and office units situated in Changzhou, Jiangsu Province from Changzhou City Wujin Gas Company Limited ("Wujin Gas") (note 2), the minority equity interest holder of Changzhou Gas Engineering and Changzhou Gas Development, for an aggregate consideration of RMB1,383,000.

During the year, Xinao Gas Development entered into contracts with Langfang Xinao Construction and Installation Engineering Company Limited ("Langfang Construction") (note 1), whereby Langfang Construction has agreed to provide decoration service to buildings located at Langfang with a total service fee of RMB3,118,000.



## Directors' and Controlling Shareholders' Interests in Contracts and Connected Transactions (continued)

### Exempted connected transactions (continued)

During the year, Zhuzhou Xinao paid RMB2,000,000 on behalf of Zhuzhou City Urban Construction Investment and Operation Company Limited ("Zhuzhou Construction") (note 2), a minority equity interest holder of Zhuzhou Xinao, to the staff in order to settle the liabilities in relation to the staff retirement benefit and insurance.

During the year, Shantou City Chenghai Gas Construction Company Limited ("Shantou Chenghai"), a minority equity interest holder of Shantou Xinao Gas Company Limited ("Shantou Xinao"), provided gas pipeline construction service of a contract sum of RMB742,000 to Shantou Xinao.

During the year, Zhanjiang City Gas Group Company ("Zhanjiang Gas") (note 2), a minority equity interest holder of Zhanjiang Xinao, 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.

During the year, the Group made a donation of RMB500,000 to Xinao Charity Fund (Note 3).

#### Notes:

1. Wang Family Companies, including, among others, Langfang Property Management, Elephant Club, Langfang Property, XGCL, Enric Investment, Shijiazhuang Enric, Enric Bengbu, Enric Langfang, Bengbu Property, Xinneng Beijing, Shijiazhuang Machinery and Langfang Construction, are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at the general meeting of the relevant company) by Mr. Wang, the Chairman, an executive Director and an controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a non-executive Director and a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Company.
2. Shijiazhuang Gas, Changping Economic Development, Wujin Gas, Haining Wantong, Zhuzhou Construction, Shantou Chenghai and Zhanjiang Gas are each a minority equity interest holder of one or more non-wholly-owned subsidiary(ies) of the Company who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary, thereby being connected persons of the Company.
3. Xinao Charity Fund is a non-profit-making organisation, of which Mr. Wang is the legal representative.
4. Most subsidiaries, jointly-controlled entities and associates of the Company in the PRC, minority equity interest holders 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 or a controlling shareholder 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 49 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” and Note 39 to the Financial Statements, the Company issued five-year convertible bonds (“CB” or “CBs”) in an aggregate principal amount of HK\$550,000,000 on 15 November 2004. The CBs 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 CBs 2.5 years after the issue date. If the bondholders do not exercise the option of redemption, then they have to hold the CBs 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 CBs 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 CBs was HK\$5.4375, which is subject to adjustment for events, if any, which may have diluting effects after the issue. If all the CBs are converted into shares, approximately 101,149,425 ordinary shares of the Company will be issued, equivalent to 11.19% of the total issued share capital of the Company as at 31 December 2005. During the year, HK\$79,570,000 of CBs was converted into 14,633,560 ordinary shares of the Company, representing 14.5% of the CBs. If all the outstanding CBs are converted into shares, approximately 86,515,862 ordinary shares of the Company will be issued, equivalent to 9.57% of the total issued share capital of the Company as at 31 December 2005.

Other than disclosed above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2005.

## Major Customers and Suppliers

For the year ended 31 December 2005, the aggregate amount of turnover and purchases attributable to the Group’s five largest customers and suppliers respectively accounted for less than 30% of the Group’s total turnover and purchases.

## Pre-emptive Rights

There are no provisions 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 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 2005. Four 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 Mr. Yang Yu, an executive Director and Chief Executive Officer, 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.

## The Code on Corporate Governance Practices

To the knowledge of the Board, the Company has complied with the Code on Corporate Governance Practices (“Code”) as set out in Appendix 14 of the Listing Rules throughout the year, and there have been no material deviations from the code. Details of compliance are set out in the Corporate Governance Report on pages 40 to 61 of the Annual Report.



### The Model Code for Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code set out in Appendix 10 to the Listing Rules. 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 and the code of conduct regarding Directors' securities transactions.

### 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.

### Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company has entered into a loan agreement which requires Mr. Wang and Ms. Zhao, the controlling shareholders of the Company, to retain his shareholding of the Company not less than 35% of the total issued share capital of the Company throughout the term of the loan agreement, which is 5 years from 18 May 2004. The total amount of the loans involved is US\$25,000,000 (equivalent to RMB201,755,000).

### Interests in Competitors

During the year, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

### 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 2006