

REPORT OF THE DIRECTORS

The Directors present the 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 37 to the consolidated 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 45.

The Directors do not recommend the payment of a dividend (2004: Nil) and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2005, amounted to HK\$233,326,000 (2004: HK\$660,905,000).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2005 is set out on page 6.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Mr. Ou Yaping (*Chairman*)
Mr. Tang Yui Man Francis (*Vice Chairman*)
Mr. Chen Wei (*Managing Director*)
Mr. Li Fujun
Mr. Shen Lian Jin
Mr. Zhang Keyu

Non-executive Directors:

Mr. Fok Kin-ning, Canning
Mr. To Chi Keung, Simon
(*alternative director to Fok Kin-ning, Canning*)

Independent non-executive Directors:

Mr. Cheung Hon Kit
Mr. Ge Ming
Mr. Li Xiao Ru

In accordance with the Article 112 of the articles of association of the Company (the "Articles of Association"), Messrs. Ou Yaping, Fok Kin-ning, Canning, Zhang Keyu and Li Xiao Ru, shall retire at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, would offer themselves 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 (the "Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries 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 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

Name of Directors	Capacity	Interest in Shares Long positions/(short positions)			Interest in underlying Shares pursuant to share options	Aggregate interest/(short positions)	Approximate percentage of the Company's issued share capital
		Personal interest	Corporate interest	Total interest in Shares			
Chen Wei	Beneficial owner	2,160,000	–	2,160,000	8,040,000	10,200,000	1.08%
Cheung Hon Kit	Beneficial owner	–	–	–	800,000	800,000	0.08%
Ge Ming	Beneficial owner	–	–	–	800,000	800,000	0.08%
Li Fujun	Beneficial owner	–	–	–	2,600,000	2,600,000	0.28%
Li Xiao Ru	Beneficial owner	–	–	–	800,000	800,000	0.08%
Ou Yaping	Beneficial owner and interest in controlled corporations	–	575,806,587 (19,230,769)	575,806,587 (19,230,769) <i>(Note)</i>	3,600,000 –	579,406,587 (19,230,769)	61.49% (2.04%)
Shen Lian Jin	Beneficial owner	–	–	–	2,300,000	2,300,000	0.24%
Tang Yui Man Francis	Beneficial owner	3,440,000	–	3,440,000	3,960,000	7,400,000	0.79%
Zhang Keyu	Beneficial owner	–	–	–	2,000,000	2,000,000	0.21%

Note: The 575,806,587 Shares 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”), both wholly-owned subsidiaries of Enerchina; and (ii) 5,081,600 Shares held by Asia Pacific Promotion Limited (“Asia Pacific”). As approximately 74.79% of the issued share capital of Enerchina were held by Sinolink as at 31 December 2005, approximately 52.15% interests of Sinolink are held by Asia Pacific and Mr. Ou is the sole beneficial owner of Asia Pacific, Mr. Ou is deemed under the SFO to be interested in such 575,806,587 Shares.

Kenson is under an obligation to transfer 19,230,769 Shares to Hutchison International Limited (“Hutchison International”) upon full exchange of a HK\$62,500,000 exchangeable redeemable note (the “Note”) held by Hutchison International in accordance with the terms and conditions of the Note.

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

(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 shares pursuant to underlying shares	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation
			Personal interest	Corporate interest	Family interest					
Chen Wei	Sinolink	Beneficial owner	-	-	-	-	12,000,000	12,000,000	0.46%	
Ou Yaping	Enerchina	Beneficial owner and interest in controlled corporations	-	3,617,895,635 (Note 1)	-	3,617,895,635	2,288,000	3,620,183,635	74.83%	
	Sinolink	Interest in controlled corporations and joint interest	-	1,374,222,000 (Note 2)	6,475,920	1,380,697,920	-	1,380,697,920	52.40%	
	Asia Pacific	Beneficial owner	2	-	-	2	-	2	100.00%	
Shen Lian Jin	Sinolink	Beneficial owner	-	-	-	-	3,000,000	3,000,000	0.11%	
Tang Yui Man	Enerchina	Beneficial owner	-	-	-	-	22,880,000	22,880,000	0.47%	
Francis	Sinolink	Beneficial owner	-	-	-	-	19,000,000	19,000,000	0.72%	
Zhang Keyu	Sinolink	Beneficial owner	-	-	-	-	2,000,000	2,000,000	0.08%	

Notes:

- The 3,617,895,635 shares in Enerchina represent the aggregate of: (i) the 3,393,905,282 shares held by Sinolink (Mr. Ou Yaping through his wholly-owned company, 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); and (ii) the 223,990,353 shares held by Smart Orient Investments Limited ("Smart Orient") (Sinolink holds 100% of the issued share capital of Smart Orient and is therefore to be interested in such Shares in which Smart Orient is interested).
- These shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping, Chairman of the Company.

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 Shares, details of which as at 31 December 2005 were as follows:

Name of Directors	Date of grant	Exercisable period	Exercise price HK\$	Number of Shares subject to outstanding options as at 1.1.2005 and 31.12.2005	Approximate percentage of the Company's issued share capital
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000	0.15%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%
Cheung Hon Kit	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%
Ge Ming	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%
Li Fujun	04.04.2001	01.01.2003 – 03.04.2011	0.475	920,000	0.10%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,200,000	0.13%
	13.11.2001	13.11.2002 – 13.02.2007	0.940	480,000	0.05%
Li Xiao Ru	19.11.2004	31.12.2005 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	240,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	320,000	0.03%
Ou Yaping	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000	0.19%
	04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000	0.19%
Shen Lian Jin	04.04.2001	01.01.2004 – 03.04.2011	0.475	300,000	0.03%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	0.08%
Tang Yui Man Francis	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000	0.10%
	19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000	0.10%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000	0.13%
Zhang Keyu	19.11.2004	31.12.2005 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2006 – 30.03.2011	3.500	600,000	0.06%
	19.11.2004	31.12.2007 – 30.03.2011	3.500	800,000	0.08%

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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. During the year, no option was granted to or exercised by the Directors and no options held by the Directors were lapsed or cancelled.
3. These options represent personal interest held by the Directors as beneficial owners.

(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 at 1.1.2005	Number of shares subject to outstanding options as at 31.12.2005	Approximate percentage of the issued share capital of the associated corporations at 31.12.2005
Chen Wei	Sinolink	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%
Ou Yaping	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	2,288,000	0.05%
Shen Lian Jin	Sinolink	13.01.2005	31.12.2005 – 24.05.2012	1.126	–	900,000	0.03%
		13.01.2005	30.06.2006 – 24.05.2012	1.126	–	900,000	0.03%
		13.01.2005	31.12.2006 – 24.05.2012	1.126	–	1,200,000	0.05%
Tang Yui	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	22,880,000	0.47%
Man Francis	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%
Zhang Keyu	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 grant until the commencement of the exercise period.
2. The options represent personal interests 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 COMPANY

(a) Pre-GEM Listing Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the “Pre-GEM Listing Share Option Scheme”) by resolutions of sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Listing Share Option Scheme was to recognize the contribution of certain Directors and employees of members of the Group and members of the Sinolink group to the growth of the Group and/or to the listing of the Shares on GEM.

At 31 December 2005, the outstanding number of shares in respect which options had been granted under the Pre-GEM Listing Share Option Scheme was 11,970,000 (2004: 13,870,000), representing 1.27% (2004: 1.47%) of the existing share capital of the Company as at the date of this annual report.

Share options (the “Pre-GEM Options”) were granted in 2001 in consideration of HK\$1.00 per grant, at an exercise price of HK\$0.57, being the issue price of the Shares on listing on GEM. The exercise price was subsequently adjusted to HK\$0.475 upon capitalization of shares in 2002. 50% of the Pre-GEM Options are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The Pre-GEM Options are exercisable on a cumulative basis until the expiry date on 3 April 2011. The Pre-GEM Options were granted to recognize the past and present contributions of the grantees to the Group.

The Pre-GEM Listing Share Option Scheme ended on the date on which dealings in the Shares commenced on GEM (i.e. 20 April 2001), and no further options will be offered or granted after that date. The provision of the Pre-GEM Listing Share Option Scheme shall remain in full force and effect.

(b) 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the “2001 GEM Share Option Scheme”), the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2001 GEM Share Option Scheme remained in force for a period of 10 years commencing on 4 April 2001.

The share options granted under the 2001 GEM Share Option Scheme (the “2001 GEM Options”) are exercisable at any time for a period to be determined by the directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

At 31 December 2005, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Share Option Scheme was 27,999,000 (2004: 29,769,000), representing 2.97% (2004: 3.82%) of the existing share capital of the Company as at the date of this annual report.

2001 GEM Options granted should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per option.

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The total number of Shares in respect of which options might be granted under the 2001 GEM Share Option Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which might be granted under the 2001 GEM Share Option Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

The 2005 GEM Share Option Scheme has replaced the 2001 GEM Share Option Scheme and there will be no options granted under the 2001 GEM Share Option Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the 2001 GEM Share Option Scheme shall remain in full force and effect.

(c) 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the Company's shareholders at the annual general meeting held on 26 April 2005 (the "2005 GEM Share Option Scheme") and approved by Sinolink pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 GEM Share Option Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005.

The share options under the 2005 GEM Share Option Scheme (the "2005 GEM Options") are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

At 31 December 2005, no 2005 GEM Share Option was granted under the 2005 GEM Share Option Scheme.

The 2005 GEM Options granted should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per option.

The total number of Shares in respect of which options might be granted under the 2005 GEM Share Option Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which might be granted under the 2005 GEM Share Option Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

REPORT OF THE DIRECTORS

The 2005 GEM Share Option Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date.

(d) New Scheme

Pursuant to a share option scheme adopted by the Company's shareholders of the Company at an extraordinary general meeting held on 28 November 2005 (the "New Scheme") and approved by Enerchina and Sinolink pursuant to an ordinary resolution passed at the respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The New Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under the New Scheme (the "New Scheme Options") are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

At 31 December 2005, no New Share Option was granted under the New Scheme.

The New Scheme Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per option.

The total number of Shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option may be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the New Scheme or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

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

	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 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
Cheung Hon Kit	2004 GEM Options	800,000	–	–	800,000
Ge Ming	2004 GEM Options	800,000	–	–	800,000
Li Fujun	Pre-GEM Options	2,120,000	–	–	2,120,000
	2001 GEM Options	480,000	–	–	480,000
Li Xiao Ru	2004 GEM Options	800,000	–	–	800,000
Ou Yaping	Pre-GEM Options	3,600,000	–	–	3,600,000
Shen Lian Jin	Pre-GEM Options	300,000	–	–	300,000
	2004 GEM Options	2,000,000	–	–	2,000,000
Tang Yui Man Francis	2001 GEM Options	960,000	–	–	960,000
	2004 GEM Options	3,000,000	–	–	3,000,000
Zhang Keyu	2004 GEM Options	2,000,000	–	–	2,000,000
Total Directors		<u>24,900,000</u>	<u>–</u>	<u>–</u>	<u>24,900,000</u>
Category 2: Employees					
	Pre-GEM 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 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>

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Details of specific categories of options are as follows:

Option types	Date of grant	Exercise period	Exercise price HK\$
Pre-GEM Listing Share Option Scheme:			
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.475
	04.04.2001	01.01.2004 – 03.04.2011	0.475
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 was granted, exercised or cancelled under all 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries 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 OF SIGNIFICANCE

Other than as disclosed in note 32 to the financial statements, there are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its 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.

REPORT OF THE DIRECTORS

COMPETING INTERESTS

Mr. Fok Kin-ning, Canning, a non-executive Director, is also the co-chairman of Husky Energy Inc. (“Husky”). Husky is listed Canadian based, integrated energy and energy-related company, with business divided into 3 major segments, namely (i) upstream (mainly production, development and exploration of crude oil and natural gas from Western Canada, offshore Canadian East Coast and offshore China and other international areas); (ii) midstream which includes heavy oil upgrading, pipeline system, commodity marketing, electricity cogeneration, crude oil and natural gas storage and processing; and (iii) refined products which focuses on the refining, marketing and distribution of gasoline, diesel, asphalt, ethanol and ancillary services.

Husky currently sells natural gas to end users in North America, and operates natural gas storages in various part of Canada. Although some of the businesses carried on by Husky overlaps with certain businesses carried on by the Company, such operations take place in North America and South China Sea, where the Company has no operations. Therefore, the Directors are of the opinion that such businesses of Husky do not directly compete with the business of the Company.

In view of the differences between the businesses of Husky and the Company in terms of size, scope and operation location, the Directors believe that Husky is not in any direct competition with the Company and that the Company is capable of carrying on its business independently of, and at arms length from, Husky.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group’s business) which competes or is likely to compete, either directly or indirectly with the Group’s business.



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SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the register of substantial shareholders 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 (other than the Directors or chief executives of the Company as disclosed above) 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 Long positions	Interest in underlying Shares/ (short positions) pursuant to the Note	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Asia Pacific	Interest of controlled corporations and beneficial owner	575,806,587 –	– (19,230,769)	575,806,587 (19,230,769) <i>(Note 1)</i>	61.11% (2.04%)
Sinolink	Interest of controlled corporations	570,724,987 –	– (19,230,769)	570,724,987 (19,230,769) <i>(Note 1)</i>	60.57% (2.04%)
Enerchina	Interest of controlled corporations	570,724,987 –	– (19,230,769)	570,724,987 (19,230,769) <i>(Note 1)</i>	60.57% (2.04%)
Kenson	Beneficial owner	401,233,462 –	– (19,230,769)	401,233,462 (19,230,769) <i>(Note 1 & 2)</i>	42.58% (2.04%)
Value Partners Limited	Investment manager	60,000,000	–	60,000,000 <i>(Note 3)</i>	6.37%
Cheah Cheng Hye	Interest of controlled corporation	60,000,000	–	60,000,000 <i>(Note 3)</i>	6.37%
Hutchison International Limited	Beneficial owner	38,461,538	19,230,769	57,692,307 <i>(Note 4)</i>	6.12%
Hutchison Whampoa Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 4)</i>	6.12%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	38,461,538	19,230,769	57,692,307 <i>(Note 5)</i>	6.12%

REPORT OF THE DIRECTORS

Name of Shareholders	Capacity	Interest in Shares Long positions	Interest in underlying Shares/ (short positions) pursuant to the Note	Aggregate interest/ (short positions)	Approximate percentage of the Company's issued share capital
Li Ka-shing	Interest of controlled corporation and as founder of discretionary trusts	38,461,538	19,230,769	57,692,307 (Note 5)	6.12%
Li Ka-Shing Unity Trustee Company Limited	Trustee	38,461,538	19,230,769	57,692,307 (Note 5)	6.12%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 5)	6.12%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	38,461,538	19,230,769	57,692,307 (Note 5)	6.12%
Deutsche Bank Aktiengesellschaft	Beneficial owner and holder of security interest in Shares	51,171,282	–	51,171,282	5.43%

Notes:

1. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. Enerchina was owned as to approximately 74.79% by Sinolink as at 31 December 2005 and Sinolink is in turn owned as approximately 52.15% by Asia Pacific. Therefore, by virtue of Part XV of the SFO, the 401,233,462 Shares and 169,491,525 Shares in which Kenson and Supreme All are interested duplicate with interest in Shares held by Enerchina, Sinolink and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson and Supreme All. In addition, Asia Pacific is directly interested in 5,081,600 Shares, representing approximately 0.54% of the entire issued share capital of the Company.
2. Kenson is under an obligation to transfer 19,230,769 Shares to Hutchison International upon full exchange of the Note held by Hutchison International in accordance with the terms and conditions of the Note.
3. These 60,000,000 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.
4. Hutchison International is interested in 38,461,538 Shares and in the Note which is exchangeable into existing Shares held by Kenson at the exchange price of HK\$3.25 (subject to adjustment) per Share on or before 1 November 2006. Upon full exchange of the Note at the initial exchange price, Hutchison International shall be entitled to 19,230,769 Shares and is accordingly interested in an aggregate of 57,692,307 Shares.

Hutchison International is a wholly owned subsidiary of Hutchison Whampoa Limited ("Hutchison Whampoa"). By virtue of Part XV of the SFO, Hutchison Whampoa is deemed to be interested in 57,692,307 Shares.

REPORT OF THE DIRECTORS

5. Certain subsidiaries of Cheung Kong (Holdings) Limited (“Cheung Kong”) are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa.

Li Ka-Shing Unity Holdings Limited (“Unity Holdco”), of which each of Messrs. Li Ka-shing, Li Tzar Kuoi, Victor and Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited (“TUT1”). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TDT1, TDT2, TUT1 and Cheung Kong is deemed to be interested in the 38,461,538 Shares and in the Note representing 19,230,769 underlying Shares both held by Hutchison International.

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 TRANSACTION

While the Company was listed on GEM of Stock Exchange, pursuant to Chapter 19 of the Rules Governing the Listing of Securities of on GEM (the “GEM Listing Rules”), the following connected transaction of the Company require disclosure in the annual report of the Company:

As disclosed in the circular dated 8 September 2005, Panriver Investments, a wholly-owned subsidiary of the Company 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 the Company since it is a substantial shareholder of Jinan Panva Gas Co. Ltd., which is 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 19 and 20 of the GEM Listing Rules.

The independent non-executive Directors confirm that the transaction has 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

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$966,000.

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 81% of its operating costs for the year. Purchases from the largest supplier accounted for about 54% of its operating costs.

PRE-EMPTIVE RIGHTS

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

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

As at 31 December 2005, the Group had 3,818 employees, an increase of 16.72% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

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 35 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this report.

REPORT OF THE DIRECTORS

AUDITORS

The consolidated 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 annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CHEN Wei
Managing Director

Hong Kong, 24 April 2006