

## Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the provision of integrated business solutions in the energy equipment industry and the design, manufacture and sale of specialised gas equipment. Particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

### FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit or loss for the year then ended. In preparation of the financial statements, the Directors are required to:

- (a) select appropriate accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;
- (b) explain any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for employing reasonable procedures to prevent and detect fraud and other irregularities.

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at such date are set out in the financial statements on pages 60 and 104.

### DIVIDENDS AND RESERVES

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: nil).

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2006 is as follows:

	Percentage of the Group's total	
	sales	purchase
The largest customer	17.0%	
Five largest customers in aggregate	30.1%	
The largest supplier		37.8%
Five largest suppliers in aggregate		57.6%

The largest customer of the Group is Xinao Gas Holdings Limited ("Xinao Gas") (representing itself and as trustee of its subsidiaries), in which Mr. Wang Yusuo ("Mr. Wang"), an Executive Director and the Chairman of the Company and Ms. Zhao Baoju ("Ms. Zhao"), the Non-executive Director of the Company, have substantial interests through Xinao Group International Investment Limited ("XGII"), a controlled corporation. Further details are set out in the section headed "Directors' Interests in Contracts and Connected Transactions" in this report.

## Directors' Report

Save as disclosed above, at no time during the year have the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in any of the five largest customers or suppliers of the Group.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

### RETIREMENT SCHEMES

The Group participates in government pension schemes for its employees in Mainland China and operates a Mandatory Provident Fund scheme for its employees in Hong Kong. Particulars of these schemes are set out in note 29 to the financial statements.

### CHARITABLE DONATIONS

During the year, charitable donations made by the Group amounted to RMB1,640,000 (2005: RMB500,000).

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

### BANK LOANS

Details of bank loans of the Group at 31 December 2006 are set out in note 21 to the financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 8.

### DIRECTORS

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

#### Executive Directors

Mr. Wang Yusuo (*Chairman*)  
 Mr. Jin Yongsheng (*Chief Executive Officer*)\*  
 Mr. Cai Hongqiu  
 Mr. Zhao Xiaowen  
 Mr. Zhou Kexing  
 Mr. Yu Jianchao  
 Mr. Cheong Siu Fai\*

\* Mr. Jin and Mr. Cheong were appointed on 5 June 2006 and 11 January 2007 respectively.

#### Non-executive Director

Ms. Zhao Baoju

#### Independent Non-executive Directors

Mr. Wong Chun Ho  
 Mr. Gao Zhengping  
 Mr. Shou Binan

In accordance with article 86(3) of the Company's articles of association, Messrs Jin Yongsheng and Cheong Siu Fai will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with articles 87(1) and 87(2), Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen and Zhou Kexing will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company. Service agreements of Messrs Wang Yusuo, Cai Hongqiu, Zhao Xiaowen, Zhou Kexing and Yu Jianchao are of an initial term of three years commencing on 1 October 2005 whereas the service agreement of each of Messrs Jin Yongsheng and Cheong Siu Fai commences on 5 June 2006 and 11 January 2007 respectively. The initial term of service agreements of all Executive Directors expire on 30 September 2008 and each service agreement shall continue thereafter until terminated by either party serving to the other not less than six months' prior notice in writing.

Ms. Zhao Baoju has been appointed for an initial term of three years, commencing from 18 October 2005 and expiring on 17 October 2008. The service agreements of Messrs Wong Chun Ho, Gao Zhengping and Shou Binan commence from 7 February 2005 for an initial term of three years to 6 February 2008.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

## DISCLOSURE OF INTERESTS

### Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2006, the interests and short positions of Directors and chief executives 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 (the "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 Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### *Interests in shares and underlying shares of the Company*

Name of Director	Capacity	Interests in shares		Total interests in shares	Interests in underlying shares subject to share options	Aggregate interests in shares and underlying shares	Approximate percentage of total issued share capital
		Personal	Corporate				
Mr. Wang	Interest of controlled corporation and beneficial owner	–	234,144,000 (Note 1)	234,144,000	4,000,000 (Note 2)	238,144,000	53.49%
Ms. Zhao	Interest of controlled corporation and interest of spouse	–	234,144,000 (Note 1)	234,144,000	4,000,000 (Note 2)	238,144,000	53.49%
Mr. Jin Yongsheng	Beneficial owner	–	–	–	2,000,000	2,000,000	0.45%
Mr. Cai Hongqiu	Beneficial owner	–	–	–	1,400,000	1,400,000	0.31%
Mr. Zhao Xiaowen	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Zhou Kexing	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Yu Jianchao	Beneficial owner	–	–	–	1,000,000	1,000,000	0.22%
Mr. Cheong Siu Fai	Beneficial owner	–	–	–	700,000	700,000	0.16%

## Directors' Report

Notes:

1. The two references to 234,144,000 shares relate to the same block of shares 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 share options which were granted by the Company to Mr. Wang.

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

### *Interests in shares and underlying shares of associated corporation*

Name of associated corporation	Name of Director	Capacity	Interests in shares		Total interests	Shareholding percentage
			Personal	Family		
XGII	Mr. Wang	Beneficial owner and interest of spouse	500	500	1,000	100%
XGII	Ms. Zhao	Beneficial owner and interest of spouse	500	500	1,000	100%

### *Directors' rights to acquire shares*

Pursuant to the Pre-GEM Listing Share Option Plan adopted by the Company on 26 September 2005, certain Directors were granted share options to subscribe for one ordinary share in the Company for each option granted, details of which as at 31 December 2006 were as follows:

Name of Director	Date of grant	Exercisable period	Exercise price per share HKD	Number of underlying shares subject to share options of total issued share capital	Approximate percentage
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000 (Note 2)	0.90%
Mr. Jin Yongsheng	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,000,000	0.45%
Mr. Cai Hongqiu	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	0.31%
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Zhou Kexing	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Yu Jianchao	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	0.22%
Mr. Cheong Siu Fai	26.09.2005	18.04.2006 – 25.09.2015	1.50	700,000	0.16%

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantee become exercisable upon the expiry of six months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantee become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.
2. Ms. Zhao, being the spouse of Mr. Wang, is deemed to be interested in the share options which were granted by the Company to Mr. Wang.

Save as disclosed above, as at 31 December 2006, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations were 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 pursuant to the Model Code.

#### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests and short positions of every person, other than Directors and chief executives 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	Number of share capital	Approximate percentage of total issued shares held
XGII	Beneficial owner	234,144,000	52.59%
INVESCO Hong Kong Limited	Investment manager	33,936,000	7.62%
Symbiospartners Private Equity Limited	Beneficial owner	26,016,000	5.84%
Commonwealth Bank of Australia	Interest in controlled corporation	23,933,000	5.38%

Save as disclosed above, as at 31 December 2006, (i) the register required to be kept under section 336 of the SFO recorded no other interests or short positions in the shares or underlying shares of the Company; and (ii) the Directors are not aware of any other persons or corporations who were interested in 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 OPTIONS

##### Main Board Share Option Scheme

The Company adopted a share option scheme (the "GEM Share Option Scheme") pursuant to a written resolution passed by the then sole shareholder on 26 September 2005. In connection with the listing of the Company's shares on the Main Board of the Stock Exchange, the Company has adopted another share option scheme (the "Main Board Share Option Scheme") and terminated the GEM Share Option Scheme pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company on 12 July 2006. No options were granted under the GEM Share Option Scheme and no further options may be offered upon its termination.

The purpose of the Main Board Share Option Scheme is to provide incentives and rewards to employees and Directors and eligible persons for their contributions to the Group. Under the scheme, the Board is authorised, at its absolute discretion, to invite any Directors (including Non-executive and Independent Non-executive Directors) or any employees (whether full-time or part-time) of any member of the Group, and any eligible persons to subscribe for shares of the Company.

The Main Board Share Option Scheme shall be valid and effective for a period of ten years ending on 11 July 2016, after which no further options will be granted. The share options are exercisable for a period to be notified by the Board to each participant, which shall not exceed 10 years from the date of grant. There is no minimum period which an option must be held before it can be exercised, but the Board is authorised to impose at its discretion any such minimum period at the date of grant. The share options granted must be taken up within 14 days from the date of grant and on acceptance of each grant, a consideration of HKD1.00 is payable.

## Directors' Report

The exercise price of an option shall be at least the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of offer; (ii) the average price of the closing prices of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five consecutive trading days immediately preceding the date of offer; and (iii) the nominal value of a Company's share.

The maximum number of shares in respect of which options may be granted under the Main Board Share Option Scheme shall not exceed 44,520,000 shares, which represents 10% of the issued share capital of the Company as at the date of adoption of such scheme. However, the Board may seek approval of the shareholders in general meeting for refreshing the 10% limit and/or for granting options beyond the 10% limit. Notwithstanding the refreshed limit and granting of options beyond the limit, the maximum number of shares which may be granted must not exceed 30% of the total number of shares in issue from time to time.

As at the date of this report, a total of 44,520,000 shares, representing 10% of the issued share capital of the Company are available for issue under the Main Board Share Option Scheme.

The maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant under the Main Board Share Option Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be subject to the shareholders' approval in general meeting with such participant and his/her associates abstaining from voting.

As at the date of this report, no options have been granted under the Main Board Share Option Scheme.

### Pre-GEM Listing Share Option Plan

Pursuant to a written resolution passed by the then sole shareholder on 26 September 2005, the Company adopted a Pre-GEM Listing Share Option Plan (the "Plan"). The principal terms of the Plan are substantially the same as those of the Main Board Share Option Scheme, except that:

1. the purpose of the Plan is to recognise the contribution of certain existing and past employees and directors of the Group to the growth of the Group and/or to the Company's listing of shares on the Growth Enterprise Market of the Stock Exchange ("GEM") in 2005;
2. the total number of shares available for issue under the Plan is 13,800,000 which represents 3.1% of the issued share capital as at the date of this report. The maximum entitlement of each participant must not exceed 13,800,000 shares;
3. the exercise price of options is set at HKD1.50;
4. the minimum periods which an option must be held before it is exercisable are: (i) six months after 18 October 2005 for 50% of the options granted; and (ii) 24 months after 18 October 2005 for the remaining 50% of the options granted; and
5. the Plan was valid from 26 September 2005 to 17 October 2005, after which no further options will be granted but its provisions will remain in force until 25 September 2015 so as to give effect to the exercise of any options granted.

As of the date of this report, all options under the Plan have been granted and accepted by the respective participants. During the year ended 31 December 2006, movements of the options under the Plan were as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HKD	Number of share options		
				outstanding at 1 January 2006	exercised during the year	outstanding at 31 December 2006
Mr. Wang	26.09.2005	18.04.2006 – 25.09.2015	1.50	4,000,000	–	4,000,000
Mr. Jin Yongsheng	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,000,000	–	2,000,000
Mr. Cai Hongqiu	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,400,000	–	1,400,000
Mr. Zhao Xiaowen	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Zhou Kexing	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Yu Jianchao	26.09.2005	18.04.2006 – 25.09.2015	1.50	1,000,000	–	1,000,000
Mr. Cheong Siu Fai	26.09.2005	18.04.2006 – 25.09.2015	1.50	700,000	–	700,000
Employees	26.09.2005	18.04.2006 – 25.09.2015	1.50	2,700,000	–	2,700,000
				<u>13,800,000</u>	<u>–</u>	<u>13,800,000</u>

No share options were granted, lapsed or cancelled during the year ended 31 December 2006.

Notes:

1. Subject to certain vesting conditions as stated in the Pre-GEM Listing Share Option Plan, 50% of the options granted to any grantees become exercisable upon the expiry of six months after 18 October 2005 up to 10 years from the date of grant of the options; another 50% of the options granted to any grantees become exercisable upon the expiry of 24 months after 18 October 2005 up to 10 years from the date of grant of the options.
2. The market value per share on the date of grant was not available since the Company was still a private company on the date of grant.
3. The valuation of fair value of share options granted was measured based on a binomial option pricing model. The fair value per share on the date of grant was HKD0.49.

#### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions and arrangements with persons who are connected for the purposes of Chapter 14A of the Listing Rules:

On 31 January 2005, the Group entered into a product sales agreement with Xiniao Gas (representing itself and as trustee of its subsidiaries) under which the Group agreed to sell gas-related equipment to Xiniao Gas for their own use in the ordinary course of business operation for a term of three years commencing on 1 January 2005. For the year ended 31 December 2006, the Group's sales to Xiniao Gas amounted to RMB131,539,000.

On 4 October 2005, the Group entered into a product sales and finance lease agreement with Hebei Finance Leasing Company Limited ("Hebei Finance") (note 1). Hebei Finance agreed to purchase gas-related equipment from the Group for the purpose of providing finance leasing to customers of the Group for a term of three years commencing on 1 January 2005. For the year ended 31 December 2006, the Group's sales to Hebei Finance amounted to RMB1,111,000.

## Directors' Report

The Independent Non-executive Directors have reviewed the above transactions and confirmed that in their opinion the above transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. 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. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has received from the auditors a letter reporting that the above transactions:

1. have received the approval of the Board;
2. have been entered into in accordance with the pricing policies of the Company;
3. have been entered into in accordance with the relevant agreements governing the transactions; and
4. have not exceeded the relevant annual caps.

During the year, the Group's sales to Hebei Veyong Biochemical Joint Stock Company (note 2) and Inner Mongolia New Veyong Biochemical Company Limited (note 2) amounted to RMB423,000 and RMB176,000 respectively.

During the year, Bengbu Xinao Gas Development Company Limited (note 3) and Shijiazhuang Xinao Gas Company Limited ("Shijiazhuang Xinao") (note 3) supplied natural gas to the Group for the Group's own consumption. The gas usage expense charged by the two companies for the year amounted to RMB59,000 and RMB27,000 respectively.

During the year, Shijiazhuang Xinao provided gas connection services to the Group. The connection fee for the year was RMB1,351,000.

On 1 September 2003, the Group entered into a tenancy agreement with Hebei Veyong Group Company Limited ("Hebei Veyong") (note 2) under which the Group leased certain property located in Shijiazhuang in the PRC from Hebei Veyong for office purpose. The contract term is 20 years commencing on 1 September 2003 with an annual rental of RMB3,600. The rental incurred for the year was RMB3,600.

On 30 September 2004, the Group leased two floors (including the ancillary facilities and office equipment therein) in a building in Langfang in the PRC from Xinao Group Solar Energy Company Limited (note 2) for office purpose. The contract term is three years commencing on 30 September 2004 with an annual rental of RMB520,000. The rental incurred for the year was RMB520,000.

On 30 September 2004, the Group and Langfang Xinao Property Management Company Limited (note 2) entered into a property management contract, under which Langfang Xinao Property Management Company Limited would provide certain property management services to the Group with a term of three years commencing on 1 October 2004 and with an annual service charge of RMB180,000. The service charge incurred for the year was RMB180,000.

On 7 February 2005, the Group entered into a tenancy agreement with Xinao Gas Investment Group Limited ("XGIGL") (note 3) under which the Group leases certain properties in a building in Hong Kong from XGIGL for office purpose. The contract term is three years commencing on 1 February 2005 with an annual rental of HKD455,544. During the year, the rental expenses incurred was RMB474,000.



On 28 February 2006, the Group leased office premises and a workshop located in Langfang in the PRC from Langfang Xinao Gas Equipment Company Limited (note 3) for office and production purposes. The contract term is two years commencing on 1 March 2006 with an aggregate rental of approximately RMB466,000. The rental incurred for the year was RMB389,000.

During the year, the Group made donations totalling RMB600,000 to Xinao Charity Fund (note 4).

During the year, the Group received services from Xinao Group Golden Elephant Hotel Company Limited (note 2) in relation to seminars and conferences held by the Group. The service fee incurred during the year was RMB980,000.

Save as disclosed above, no other contracts of significance to which the Company or 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.

#### Notes:

1. Mr. Wang has substantial interests in Hebei Finance.
2. Hebei Veyong Biochemical Joint Stock Company, Inner Mongolia New Veyong Biochemical Company Limited, Hebei Veyong, Xinao Group Solar Energy Company Limited, Langfang Xinao Property Management Company Limited and Xinao Group Golden Elephant Hotel Company Limited are companies controlled by Mr. Wang.
3. Bengbu Xinao Gas Development Company Limited, Shijiazhuang Xinao, XGIGL and Langfang Xinao Gas Equipment Company Limited are subsidiaries of Xinao Gas in which Mr. Wang and Ms. Zhao have substantial interests through XGII.
4. Xinao Charity Fund is a non-profit-making organisation of which Mr. Wang is a legal representative.
5. Save as Xinao Gas and XGIGL, Hebei Finance, companies controlled by Mr. Wang and subsidiaries of Xinao Gas abovementioned have names in Chinese only, and the corresponding English names used in this report are merely for reference.

#### COMPETING INTERESTS

In accordance with the terms of a deed of non-competition undertakings in favour of the Company dated 23 June 2006 (the "Non-competition Deed"), each of XGII, Mr. Wang and Ms. Zhao, being a controlling shareholder of the Company, has declared to the Company that it/he/she has complied with the terms of the Non-competition Deed and confirmed that each of them did not have any interest in any business that competes or may compete with the business of the Group throughout the year ended 31 December 2006.

None of the Directors or the management shareholders or the substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the year.

#### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' transactions of the securities of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code in their securities transactions throughout the year ended 31 December 2006.

#### CONFIRMATION OF INDEPENDENCE

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence and considered each of them is independent to the Company and the Group pursuant to Rule 3.13 of the Listing Rules.

#### CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year. The Company's corporate governance report is set out on pages 28 to 48.

## Directors' Report

### AUDIT COMMITTEE AND OTHER BOARD COMMITTEES

The Company has established an Audit Committee with written terms of reference in compliance with the Listing Rules. It has a membership comprising three Independent Non-executive Directors, namely Messrs Wong Chun Ho, Gao Zhengping and Shou Binan, among whom Mr. Wong has been appointed as the chairman. The primary duties of the Audit Committee are, amongst other things, to review and supervise over the financial reporting procedures and internal control system of the Group. The Audit Committee has reviewed and discussed with management the audited financial statements for the year ended 31 December 2006.

In addition to the Audit Committee, the Board has established a Remuneration Committee and a Nomination Committee. A majority of members of both committees are Independent Non-executive Directors. Each of the committees has its defined scope of duties and written terms of reference in compliance with the Listing Rules.

### PUBLIC FLOAT

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

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association, or laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### AUDITORS

The financial statements for the year have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Wang Yusuo**

*Chairman*

Hong Kong, 10 April 2007