

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 12 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2000 are set out in the consolidated income statement on page 25 of the annual report.

A special interim dividend was declared on 4 April 2001 to be satisfied by way of transfer of 15,200,000 shares of Panva Gas in the proportion of approximately 20 shares of Panva Gas for every 2,000 shares of the Company held. The directors do not recommend the payment of a final dividend and the profit for the year will be retained.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 26 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31 December 2000 and of the assets and liabilities of the Group as at 31 December 1997, 1998, 1999 and 2000 is set out on page 62 of the annual report .

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group and of the Company are set out in note 11 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31 December 2000 are set out on pages 63 and 64 of the annual report.

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SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

Pursuant to the prospectus issued by the Company dated 26 May 1998 (the "Prospectus"), the Company made an initial public offering through placing and new issue of 380,000,000 shares to the investing communities in June 1998 and the net proceeds were approximately HK\$412 million.

As disclosed in the 1998 and 1999 annual reports, approximately HK\$296 million had been applied in line with the proposed application as set out in the Prospectus. Details of the application of the remaining amount are set out below:

	<i>HK\$'000</i>
Remaining balance	<u>116,000</u>
Application of funds	
— general working capital of the Group	16,000
Funds retained for:	
— transformation of outdoor power transformer stations and overhead transmission cables into indoor power transformer stations and underground transmission cables at Yinhu	<u>100,000</u>
	<u>116,000</u>

The funds retained were placed on short term deposits with commercial banks in Hong Kong. The application of proceeds from the initial public offering was in line with the proposed application as set out in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

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RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 32 to the financial statements.

DIRECTORS

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

Executive directors:

Mr. Ou Yaping (*Chairman and Managing Director*)

Mr. Law Sze Lai

Mr. Chen Wei

Mr. Tang Yui Man, Francis (appointed on 28 June 2000 and
resigned on 21 December 2000)

Independent non-executive directors:

Mr. Liang Xiaoting

Mr. Cheung Wing Yui

Mr. Tsang Yu Chor, Patrick

In accordance with the Company's Bye-Laws, Messrs. Chen Wei and Liang Xiaoting retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

The biographical details of the directors of the Company are set out on pages 12 to 13 of the annual report.

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DIRECTORS' INTERESTS IN SHARES

(i) Shares

At 31 December 2000, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Number of ordinary shares held	
	Personal	Corporate
Mr. Ou Yaping	—	1,006,800,000 (Note)

Note: These shares are held by Asia Pacific Promotion Limited, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.

(ii) Shares in a subsidiary

Name of director	Name of subsidiary	Number of non-voting deferred shares held
Mr. Ou Yaping	Sinolink Electric Power Company Limited	90,000

(iii) Interest in an associated corporation (within the meaning of the SDI Ordinance) of the Company

Name of interested party	Name of associated corporation	Nature of interest	Percentage of equity interest in associated corporation
Mr. Ou Yaping and his associates	Shenzhen Xiangdu F.& E. Co., Ltd.	Corporate	55%

Save as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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DIRECTORS' INTERESTS IN CONVERTIBLE NOTE

As at 31 December 2000, Mr. Ou Yaping held convertible note amounting to HK\$55,183,411. Such convertible note can be converted into 122,629,000 shares of the Company on or before 9 February 2002 at an initial conversion price of HK\$0.45 per share.

DIRECTORS' INTERESTS IN SHARE OPTIONS

The directors had personal interests in share options to subscribe for shares of the Company as follows:

Name of Directors	Exercisable period	Date of share options granted	Exercise price HK\$	Number of share options held and outstanding at 31 December 2000
Mr. Law Sze Lai	6.1.1999 to 5.1.2002	29 June 1998	0.60	10,000,000
	6.7.1999 to 5.1.2002	29 June 1998	0.70	10,000,000
	3.9.1999 to 3.9.2002	1 March 1999	0.45	3,000,000
	3.3.2000 to 3.9.2002	1 March 1999	0.45	3,000,000
	3.9.2001 to 3.9.2002	1 March 1999	0.45	2,000,000
Mr. Chen Wei	6.1.1999 to 5.1.2002	29 June 1998	0.60	10,000,000
	6.7.1999 to 5.1.2002	29 June 1998	0.70	10,000,000
	3.9.1999 to 3.9.2002	1 March 1999	0.45	3,000,000
	3.3.2000 to 3.9.2002	1 March 1999	0.45	3,000,000
	3.9.2001 to 3.9.2002	1 March 1999	0.45	2,000,000

None of the directors had exercised any share option to subscribe for shares of the Company during the year ended 31 December 2000.

Details of the share option scheme are set out in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2000, none of the directors and chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such right during the year and at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTIONS", no contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a director 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.

DIRECTORS' SERVICE CONTRACTS

With the exception of Mr. Chen Wei, each of the executive directors has entered into a service contract with the Company upon the expiration of the existing service contract. Each of the renewed service contracts is for an initial period of two years commencing on 1 April 2001 and shall continue thereafter until terminated by either party by giving not less than six month's prior written notice.

Mr. Chen Wei has entered into a service contract with Panva Gas upon the expiration of the existing service contract with the Company. The service contract is for an initial period of three years commencing on 1 April 2001 and shall continue thereafter until terminated by either party by giving not less than three month's prior written notice.

Save as disclosed above, none of the directors or service companies under their respective control has entered into or has proposed to enter into any service or management contract with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

CONNECTED TRANSACTIONS

During the year, the Group has engaged in the following connected transactions (as defined under the Listing Rules):

- a) Pursuant to the tenancy agreement dated 12 March 1998 which expired on 31 March 2000 between Sinolink Worldwide (HK) as tenant and Skillful Assets Limited ("Skillful"), a company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director, as landlord, Skillful agreed to let to Sinolink Worldwide (HK) the property known as House 3, Kellett View Town Houses, Nos. 65-69 Mount Kellett Road, Hong Kong for a term of two years commencing on 1 April 1998. On expiry, a new tenancy agreement dated 1 April 2000 on terms similar to the previous agreement was signed for a term of two years commencing on 1 April 2000 at a rent of HK\$100,000 per month exclusive of rates and management fees. Total rental expenses of HK\$1,200,000 were paid or payable to Skillful for the year ended 31 December 2000. Details of the new tenancy agreement had been reported to the Stock Exchange on 5 May 2000.

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- b) Pursuant to the tenancy agreement dated 1 June 1999 entered into between Shenzhen Sinolink Enterprises Co., Ltd. ("Shenzhen Sinolink"), which is owned as to 80 per cent. by the Group and 20 per cent. by Shenzhen Power Supply Services Corporation ("Shenzhen Power Supply") a connected person of the Company, as the landlord and Shenzhen Xiangdu F. & E. Co., Ltd. ("Shenzhen Xiangdu"), a sino-foreign equity joint venture in which Shenzhen Sinolink and Superline Limited (a company in which each of Mr. Ou Yaping and his spouse has an attributable interest of 93.5 per cent. and 6.5 per cent. respectively) are interested in 45 per cent. and 55 per cent. respectively of its registered capital as the tenant, Shenzhen Sinolink allowed Shenzhen Xiangdu to use the property situated at No. 2, Taining Road, Luohu District, Shenzhen as a restaurant from 1 June 1999 to 31 December 2001 at a rental of RMB60,000 per month. Total rental income of RMB720,000 (equivalent to HK\$673,526) was received or receivable from Shenzhen Xiangdu for the year ended 31 December 2000.
- c) Pursuant to the loan agreement dated 31 March 1998, Mr. Ou Yaping granted to Ocean Diamond Limited, a wholly owned subsidiary of the Company, an unsecured loan in the sum of HK\$76,982,679 at an interest rate equivalent to three months Hong Kong Interbank Offer Rate. Interest is chargeable every three months and repayment of the principal is to be made in one lump sum upon expiration of the term of the loan on or before 31 December 1999. The loan had been wholly repaid and total interest expenses of HK\$40,524 was paid or payable to Mr. Ou Yaping for the year ended 31 December 2000.
- d) Pursuant to an agreement for the provision of services dated 8 January 2000 between Ocean Diamond Limited and Shenzhen Sinolink, Ocean Diamond Limited agreed to provide to Shenzhen Sinolink (i) management staffing services by supplying and sending staff to Shenzhen and (ii) services relating to the design and planning for real estate development, cable engineering consultancy and the import and sourcing of materials. Shenzhen Sinolink shall pay a monthly service fee of RMB150,000 (equivalent to HK\$140,318) to Ocean Diamond Limited. It is intended that a service agreement with the same terms (subject to adjustment as to service fee) will be entered into between Ocean Diamond Limited and Shenzhen Sinolink on a yearly basis. Total service fee of RMB1,800,000 (equivalent to HK\$1,683,816) was paid or payable to Ocean Diamond Limited for the year ended 31 December 2000.
- e) Pursuant to an agreement for the provision of agency services dated 8 January 2000 between Sinolink Worldwide (HK) and Shenzhen Sinolink, Sinolink Worldwide (HK) shall provide agency services regarding matters including, amongst others, advertising and promotion for overseas sales of property units developed by the Group in the PRC and customer liaison on behalf of Shenzhen Sinolink in return for a monthly service fee of approximately RMB700,000

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(equivalent to HK\$654,818). It is intended that an agency services agreement with the same terms (subject to adjustment as to service fee) will be entered into annually between Sinolink Worldwide (HK) and Shenzhen Sinolink. Total service fee of approximately RMB8,400,000 (equivalent to HK\$7,857,816) was paid or payable by Shenzhen Sinolink to Sinolink Worldwide (HK) for the year ended 31 December 2000.

- f) Pursuant to the Power Purchase Contract entered into between Fuhuade and Shenzhen Power Supply Bureau, the regulatory body of Shenzhen Power Supply (the substantial shareholder of Shenzhen Sinolink), which came into effect on 15 March 1996, Fuhuade agreed to supply to Shenzhen Power Supply Bureau electricity generated at Dapeng Power Plant, which is operated by Fuhuade, for on-grid onward transmission to public end-users. Total amount of approximately RMB86,415,000 (equivalent to HK\$80,837,000) worth of electricity was sold to Shenzhen Power Supply Bureau for the year ended 31 December 2000.
- g) On 12 February 1999, the Group acquired from Mr. Ou Yaping, the controlling shareholder of the Company, the entire issued share capital of China Pan River Group Limited ("CPR Group") (the "Acquisition"). CPR Group is an investment holding company, the major assets of which are its indirect majority equity interests in the joint venture companies established in the PRC, that are principally engaged in the production, transportation, storage, sale and distribution of LPG. The Acquisition had been approved by the shareholders at the special general meeting of the Company on 10 February 1999. Total consideration for the Acquisition was HK\$55,183,000 which was paid by way of an issue of convertible note in favour of Mr. Ou Yaping. Total interest expense of HK\$2,766,729 was paid or payable for the year ended 31 December 2000.
- h) Pursuant to a LPG supply agreement ("Supply Agreement") dated 19 October 2000 between Pan River Enterprises (Changsha) Company Supply Limited ("Changsha JV") in which the Company has an attributable interest of 60% as purchaser and China Petrochemical Company Limited ("CPC") and one other independent third party as suppliers, CPC and the said independent third party agreed to supply to Changsha JV high quality LPG at a price determinable by a pre-set formula as set out in the said LPG Supply Agreement. CPC is an associate (within the meaning of the Listing Rules) of the PRC party which holds 40% interest in Changsha JV and thus the entering into of the Supply Agreement constituted connected transaction of the Company. Since the commencement of the Supply Agreement, a total amount of approximately RMB39,841,752 (equivalent to HK\$42,590,830) worth of LPG was sold by CPC to Changsha JV for the year ended 31 December 2000.

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In respect of items a), b) c), d), e), and f) of the above connected transactions, the Stock Exchange has, subject to certain conditions, on 20 May 1998 granted waivers to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in connection with the connected transactions on each occasion they arise. With the exception of item c) which is no longer applicable, the Company is preparing application of new waivers prior to the waiver period granted by the Stock Exchange which will expire in May 2001. In respect of items g) and h), circulars dated 25 January 1999 and 15 November 2000 respectively had been distributed to the shareholders of the Company.

The independent non-executive directors of the Company have reviewed the transactions and confirmed that:

- (a) the transactions have been entered into in the ordinary and usual course of business of the Group;
- (b) the transactions have been entered into on normal commercial terms, and on an arm's length basis and, where applicable, in accordance with the terms of the agreements governing such transactions or, where there is no such agreement, on terms no less favourable than terms available to (or from) independent third parties;
- (c) the transactions have been entered into on terms that are fair and reasonable so far as shareholders of the Company are concerned; and
- (d) the aggregate value of the respective transactions do not exceed the respective maximum amounts as specified in the waiver granted by the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 December 2000.

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest supplier accounted for approximately 52.77% of the Group's total purchases and the Group's largest five suppliers accounted for approximately 91.67% of the Group's total purchases.

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2000 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange.

PRE-EMPTIVE RIGHTS

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

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

Ou Yaping
CHAIRMAN

Hong Kong, 24 April 2001