

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries are the generation and sale of electricity in Foshan City, Guangdong Province, the People's Republic of China (the "PRC").

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of 1.5 Hong Kong cents per share (2000: Nil) in respect of the year ended 31 December 2001, payable on or about 18 June 2002 to those shareholders whose names appear on the register of members on 22 May 2002.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

All of the Group's electricity was sold to one single customer, Foshan Electric Power Corporation, for onward supply to the ultimate end users in Foshan City. The Group's largest supplier contributed to 82% of its total purchases and the Group's five largest suppliers contributed to 99% of its total purchases during the year. As at 31 December 2001, none of the directors, their associates, or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and its customer.

ACCOUNTS

The Group's profit for the year ended 31 December 2001 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 18 to 35.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2001 are set out in note 15 on the accounts.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 13 on the accounts.

BORROWINGS

Details of borrowings of the Company and the Group as at 31 December 2001 are set out in notes 21 and 22 on the accounts.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves during the year are set out in notes 23 and 24 on the accounts respectively.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 36.

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.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules.

Report of the Directors (Continued)

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

FUEL SUPPLY TRANSACTIONS

Pursuant to the Fuel Supply Agreement dated 29 December 1997 entered into between Shakou JV and 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) (the "Fuel Company"), Shakou JV purchased fuel of an aggregate amount of approximately HK\$458,995,000 during the year (2000: HK\$495,426,000) from the Fuel Company (the "Fuel Supply Transactions"). These transactions are detailed below:

	FY 2001			Total
	Heavy Oil	Diesel Oil	Additives	
Quantity (tonnes):	295,521	701	N.A.	N.A.
Value (HK\$'000):	450,194	1,635	7,166	458,995
Weighted average price (HK\$/tonne):	1,523	2,332	N.A.	N.A.

Note: All prices and values are exclusive of value added tax.

PRICING POLICY

During the year, Shakou JV purchased most of its fuel from the Fuel Company. Shakou JV has established a pricing policy to purchase from the Fuel Company at prices which are based on the Fuel Company's weighted average purchase costs of fuel (before operating expenses and depreciation) plus reasonable mark-up margins for the Fuel Supply Transactions during the year.

THE STOCK EXCHANGE WAIVER

As the Fuel Company is an associate of 佛山市區電力建設總公司 (Foshan City District Electric Power Construction Corporation) ("Power Construction Corporation"), which in turn is a substantial shareholder of Shakou JV, the Fuel Company is a connected party of the Company as defined under the Listing Rules. The Fuel Supply Transactions constituted connected transactions under the Listing Rules and would have normally required full disclosure and prior independent shareholders' approval on each occasion as they arose. In response to the Company's application, the Stock Exchange granted a conditional waiver to the Company on 17 April 1998 so that it was exempted from the relevant requirements as stipulated under Chapter 14 of the Listing Rules.

OPINION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company's independent non-executive directors have reviewed the Fuel Supply Transactions and confirmed that: (a) the transactions had been entered into by the Company in the ordinary and usual course of its business; (b) the transactions had been entered into on terms that were fair and reasonable so far as the shareholders of the Company were concerned; (c) the transactions had been entered into in accordance with the terms of the Fuel Supply Agreement dated 29 December 1997; and (d) the aggregate amount of the transactions had not exceeded the cap amount of 80% of the cost of sales of the Group for the year ended 31 December 2001.

Report of the Directors (Continued)

CONFIRMATION FROM THE AUDITORS

The Company's auditors have also reviewed the Fuel Supply Transactions and confirmed to the Directors in writing stating that: (a) the transactions had received the approval of the Directors; (b) the transactions were in accordance with the pricing policy as stated in the Company's annual report; (c) the transactions had been entered into in accordance with the terms of the Fuel Supply Agreement dated 29 December 1997; and (d) the aggregate amount of the transactions had not exceeded the cap amount of 80% of the cost of sales of the Group for the financial year.

CONNECTED TRANSACTIONS

REPAYMENT OF LOANS

Shakou JV made principal repayments and interest payments to Power Construction Corporation and its associate. These transactions were made in accordance with the terms and conditions of the loan agreements entered into between Shakou JV and Power Construction Corporation and its associate, details of which have been disclosed in the Company's circular dated 23 March 1998.

REPAYMENT OF PROMISSORY NOTE

The Company made principal repayments of an aggregate amount of approximately HK\$13.4 million and interest payments of an aggregate amount of approximately HK\$1.4 million to Hensil Investments Group Limited ("Hensil Investments"), a controlling shareholder of the Company. These transactions were made in accordance with the terms and conditions of a promissory note issued by the Company on 14 April 1998, details of which have been disclosed in the Company's circular dated 23 March 1998 and approved by the Company's shareholders on 8 April 1998.

OFFICE LEASE

The Company paid rentals of an aggregate amount of approximately HK\$686,000 to Gloryson Limited ("Gloryson") for leasing certain office premises at Room 2105-8, Wing Shan Tower, 173 Des Voeux Road Central, Hong Kong as its head office. Gloryson is beneficially wholly owned by Madam YIP Siu Chun who is a controlling shareholder and a director and chief executive (executive directorship up to 19 July 2001) of the Company. These transactions were in accordance with the terms and conditions of a tenancy agreement entered into between the Company and Gloryson on 27 October 1999 for a period of two years commencing on 20 November 1999 at an aggregate annual rental consideration of approximately HK\$691,000. Details of the tenancy agreement have been disclosed in the Company's previous annual report. The tenancy agreement was renewed on 1 November 2001 for a period of two years, commencing on 20 November 2001 at an aggregate annual rental consideration of approximately HK\$645,000. These transactions were exempted from disclosure under 14.24(5) of the Listing Rules.

FUEL PURCHASES

Shakou JV made fuel purchases from the Fuel Company of an aggregate amount of approximately Rmb490.5 million (equivalent to approximately HK\$459.0 million). These transactions were made in accordance with a Fuel Supply Agreement entered into between Shakou JV and the Fuel Company on 29 December 1997, details of which have been disclosed in the Company's circular dated 23 March 1998 and approved by the Company's shareholders on 8 April 1998.

Report of the Directors (Continued)

DIRECTORS

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

Executive Directors

HE Haochang (*Chairman*) (*Appointed on 8 February 2001*)

CHAN Che Kan, Edward

HUANG Yongzhong (*Appointed on 8 January 2002*)

SITU Min (*Appointed on 27 September 2001*)

TANG Jian

YIP Siu Chun (*Resigned on 19 July 2001*)

DU Richeng (*Resigned on 8 February 2001*)

MOK Kit Fong (*Resigned on 1 January 2002*)

LIANG Weidong (*Resigned on 8 January 2002*)

Non-executive Director

LAM Siu Hung (*Resigned as executive director and appointed as non-executive director on 15 November 2001*)

Independent Non-executive Directors

WEI Zhong Ping

CHAN Ting Chuen, David

In accordance with articles 92 and 101 of the Company's articles of association. Mr. HUANG Yongzhong, Mr. SITU Min, Mr. CHAN Che Kan, Edward and Mr. LAM Siu Hung will retire from the board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Mesdames YIP Siu Chun and MOK Kit Fong and Mr. CHAN Che Kan, Edward have service contracts with the Company, all of which are for a period of 3 years commencing on 1 January 1993 and will continue thereafter until terminated by either party to the contracts at six months' notice. The service contracts with Mesdames YIP Siu Chun and MOK Kit Fong were terminated on 19 July 2001 and 1 January 2002 respectively. On 10 October 2001, Mr. HE Haochang entered into a service contract with the Company for a term of two years commencing on 19 July 2001 and will continue thereafter until terminated by either party to the contracts at six months' notice.

All the independent non-executive directors are appointed for a period up to 30 November 2001 or such later date(s) as agreed by the respective independent non-executive directors and the Company. Their service contracts were renewed for a period of two years, commencing on 1 December 2001 up to 30 November 2003.

Report of the Directors (Continued)

DIRECTORS' INTERESTS

As at 31 December 2001, the interests of each director and chief executive of the Company in the issued share capital of the Company as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

INTERESTS IN THE COMPANY'S ORDINARY SHARES

Name of Directors	Number of Ordinary Shares Held	
	Personal Interests	Total Interests
CHAN Che Kan, Edward	205,034	205,034
MOK Kit Fong (<i>Resigned on 1 January 2002</i>)	150,000	150,000
HE Haochang (<i>Note</i>)	6,117,079	6,117,079

Note: Held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.

Save as disclosed herein, none of the directors and chief executive had any other beneficial interests in the share capital of the Company. Furthermore, neither any of them nor their spouses or children under the age of 18 years were granted any rights or options to subscribe for shares in the Company.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2001, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, the Company had been notified of the following persons (other than a director or chief executive of the Company) with interests representing 10% or more of the issued share capital of the Company:

Name	Number of Shares Held
Hensil Investments Group Limited (<i>Note</i>)	315,000,000
Foshan Development Company Limited (<i>Note</i>)	315,000,000
YIP Siu Chun	290,196,037

Note: By virtue of its interests in Hensil Investments, Foshan Development is deemed to be interested in the 315,000,000 shares held by Hensil Investments.

Save as disclosed herein, there was no other person who was directly or indirectly interested in 10% or more of the issued share capital of the Company.

RETIREMENT SCHEME

The Company provided retirement benefits to all the employees in Hong Kong by joining a mandatory provident fund ("MPF") scheme sponsored and administered by an authorized MPF provider in compliance with the MPF Schemes Ordinance and its related guidelines. The MPF scheme is of a defined contribution type whereby both the employer and the employees make mandatory contributions to the scheme at 5% of the employees' relevant income. The contributions from employees and employer are subject to a cap of monthly relevant income of HK\$20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5% of the basic salary over the mandatory contribution. During the year, the Company's contributions amounted to HK\$116,000 (2000: HK\$99,000). According to the terms of the scheme, forfeited contributions of the scheme may be used to offset the employer's future contributions to the scheme. None (2000: Nil) was used to offset the employer's contributions in the course of the year.

Report of the Directors (Continued)

The Company's PRC subsidiary is required to make monthly contributions to a retirement plan operated by the Foshan Municipal People's Government at a rate of approximately 9% of staff salaries. Member of the plan is entitled to receive from the State a pension equal to a fixed proportion of his or her salary prevailing at the retirement date. The subsidiary has no obligation to make payments in respect of pension benefits associated with this plan other than the contributions described above.

EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	2001	2000
	HK\$'000	HK\$'000
Fee	441	450
Basic salaries, allowances and benefits in kind	2,019	1,998
Retirement scheme contributions	82	59
	2,542	2,507

The number of directors whose remuneration fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK\$1,000,000	10	8
HK\$1,000,001 – HK\$1,500,000	1	1

Included in the directors' fees, an amount of HK\$100,000 (2000: HK\$100,000) was paid to independent non-executive directors. There was no arrangement under which a director had waived or agreed to waive any remuneration. Of the five highest paid individuals, four were directors whose emoluments are disclosed above. Emoluments of the remaining individual amounted to HK\$478,000, of which retirement scheme contributions amounted to HK\$21,000.

By Order of the Board

HE Haochang

Chairman

Hong Kong, 10 April 2002